The Great-West Life Assurance Company

2009
ANNUAL REPORT

THE
Great-West Life
ASSURANCE COMPANY

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out under "Risk Management and Control Practices" in the Company's 2009 Annual Management's Discussion and Analysis, and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "earnings before restructuring charges", "adjusted net income", "net income – adjusted", "earnings before adjustments", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Company, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

CORPORATE PROFILE

Great-West Life is a leading Canadian insurer, with interests in the life and health insurance, investment, retirement savings and reinsurance businesses, primarily in Canada and Europe.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of more than 12 million people.

Great-West Life's products include a wide range of investment, retirement savings and income plans, as well as life, disability, critical illness and health insurance for individuals and families. These products and services are distributed through a diverse network: financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life's Freedom 55 Financial™ division and Wealth & Estate Planning Group; and independent advisors associated with managing general agencies, as well as national accounts, including Investors Group.

For large and small businesses and organizations, Great-West Life offers a variety of benefit plan solutions featuring options such as group life, healthcare, dentalcare, wellness and group disability, critical illness and international benefits plans, plus convenient online services. We also offer group retirement and savings plans that are tailored to the unique needs of businesses and organizations. We distribute these products and services through financial security advisors associated with our companies, as well as independent advisors, brokers and consultants.

Great-West Life has operations in the United Kingdom, Isle of Man, Ireland and Germany through Canada Life. Canada Life provides individuals and their families with a broad range of insurance and wealth management products: payout annuities, investments and group insurance in the United Kingdom; savings and individual insurance in the Isle of Man; individual insurance and savings, and pension products in Ireland; and fund-based pensions, critical illness and essential ability insurance in Germany. The Company participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets.

Great-West Life has more than $182 billion* in assets under administration and is a subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

For more information on Great-West Life, including the Company's current ratings, visit www.greatwestlife.com.

**as of December 31, 2009*

Table of Contents

DIRECTORS' REPORT

In 2009 Great-West Life and its subsidiaries in Canada and Europe delivered strong performance compared with our competitors. Our conservative investment practices and disciplined culture in introducing new products and in expense management have served us well over the long term and position us well for organic growth.

Measures of Great-West Life's performance in 2009 include:

- Premiums and deposits remained strong, at $28.1 billion.
- In Canada, mutual fund net deposits to the *Quadrus Group of Funds*™ remained strong at 11.7% of opening assets in 2009 despite difficult markets. This outpaced the mutual fund industry, which had zero net sales.
- Net income at $1.8 billion was down 10% over 2008.
- General account assets were $101.1 billion, an increase of 1% from 2008.
- Segregated fund net assets increased 13% from 2008, reflecting higher market values.
- Policyholder dividends were $1.06 billion, up 3% over 2008.
- Net income in the participating accounts after policyholder dividends was $24 million.

The Company's capital position remains very strong. Great-West Life reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 204% at December 31, 2009. This measure of capital strength remains at the upper end of our target operating range. It does not include any benefit from the approximately $1 billion of net capital transactions by its parent, Great-West Lifeco, in 2008 and 2009, which remains at the holding company level.

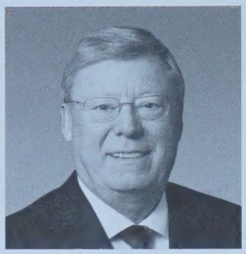
We have a high quality bond portfolio, with 98% rated investment grade at December 31, 2009.

Credit ratings are another important indicator of our financial strength. In 2009, all five agencies that rate Great-West Life affirmed the ratings for the Company and its subsidiaries, with a stable outlook. These rating affirmations put Great-West Life in exclusive company, and represent a very positive statement regarding the strength of the Company, given the economic environment over the past year.

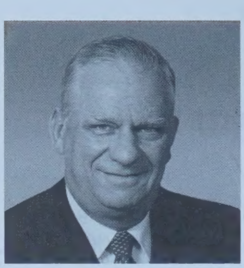
Canada

In Canada, Great-West Life, together with London Life and Canada Life, maintained strong market positions in our individual and group businesses. We are well positioned for organic growth through our continued focus on product and service enhancements and expense management.

Despite challenging market conditions, we saw strong, sustained performance. Our individual life insurance business grew significantly faster than the market; our group retirement services business recorded strong growth; our group insurance business continued to experience strong persistency; and our individual segregated fund and mutual fund businesses maintained positive net deposits.



Raymond L. McFeetors



D. Allen Loney

Individual businesses

The Canadian operations continued to focus on distribution support and development in 2009, both in the exclusive and independent distribution channels.

The relationships we have with advisors support the very strong persistency of our business, provide a strategic advantage for us and contribute to strong market share across our multiple lines of business.

Together, Great-West Life, London Life and Canada Life remain Canada's number one provider of individual life insurance.

We are the leading provider of participating life insurance and continue to focus on excellence in managing and growing our participating business. Within our group of companies participating products have been offered as far back as 1847 and policyholder dividends have been paid every year since.

In addition to participating insurance, term and universal life insurance are important elements of our value proposition. Our range of life insurance products gives advisors choice and flexibility in meeting clients' diverse individual needs.

Great-West Life, London Life and Canada Life offer a broad choice of investment, savings and income products. These include segregated funds, as well as mutual funds offered through Quadrus Investment Services Ltd., a mutual fund dealer affiliated with Great-West Life. In 2009, we achieved positive net deposits and launched new segregated fund products, including a lifetime income benefit option.

Great-West Life, together with Canada Life, remains a leading provider of individual disability and critical illness insurance in Canada. With over 65 years' experience in the individual disability insurance market in Canada, the Company continues to help Canadians meet their financial security planning needs.

Group businesses

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada.

Innovative technology and effective processes are key components of the Group Insurance Division's competitive strategy.

Renovations to our legacy information technology systems and expanded employer reporting capabilities through *GroupNet™ for Plan Administration*, enhanced the service and value we offer customers. We also expanded our process excellence initiative, reducing operating expenses and enhancing customer service in our disability claims organization.

We continue to support the important issue of mental health through the *Great-West Life Centre for Mental Health in the Workplace™*. Two programs commissioned by the Centre – *Guarding Minds @ Work* and *Working Through It* – were launched in 2009, offering employers and employees new tools for dealing with mental health issues at work.

Group capital accumulation plans are a core business for Great-West Life. In 2009, the Company completed the transfer of assets from the Fidelity Investments Canada group retirement services business, resulting in the addition of over $1.4 billion in assets under administration. Education for plan members is an ongoing priority. We offer education tools in a range of formats, including videos, online resources and print materials to help plan members at any age and stage of retirement planning.

Europe

In Europe, Great-West Life, through its subsidiary Canada Life, has operations in the United Kingdom, Isle of Man, Ireland and Germany.

In 2009, we faced challenging credit markets as well as a general loss of consumer confidence in investments due to a sharp drop in equity markets in late 2008 and early 2009. Although conditions generally improved in 2009, these pressures affected sales volumes. As well, earnings were impacted by the required strengthening of reserves for future asset default risk.

As a result of our focus on credit and expense controls in 2008, our European operations were in a strong position coming into 2009 and this focus was maintained throughout the year. For example, we reduced sales expenses by finding new ways to support our distribution associates. We were also able to take advantage of depressed real estate prices in the U.K., and wider investment spreads, to enhance the yields on our invested assets.

In Germany, we launched a new product with guaranteed minimum withdrawal benefits, which responds to market needs.

In the U.K., we continued the development of our automated self-serve system (CLASS), which enables distribution associates to quote, issue and renew small group policies, helping maintain our leading position in this market.

Great-West Life participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets. In Reinsurance, 2009 was a year of growth, as economic and capital markets pressures created demand for reinsurance solutions. We continued to leverage our financial strength, disciplined risk-management practices and excellent client relationships to achieve strong business results.

Giving back to our communities

As an organization and as individuals, we are proud to contribute to the development of stronger communities. As an Imagine Caring Company, the financial and volunteer support we provide to hundreds of charitable, non-profit and community-based organizations is aimed at meeting a high standard of corporate citizenship.

Board of Directors

At Great-West Life's 2009 Annual Meeting of Shareholders and Policyholders it was announced that Orest Dackow and Kevin Kavanagh would retire from the Company's Board of Directors after serving for many years. Orest Dackow had been a Director of the Company since 1990. Mr. Dackow was President and Chief Executive Officer of the Company from 1990 to 1995. Kevin Kavanagh was first elected a Director of the Company in 1978. Mr. Kavanagh was President and Chief Executive Officer of the Company from 1979 to 1990. Also retiring from the Company's Board of Directors were: Guy St-Germain *(served from 1991)*; Daniel Johnson *(served from 1999)*; Murray Taylor *(served from 2006)*; Peter Harder *(served from 2007)*; and Marc Bibeau *(served from 2008)*. Through their participation on the Board and various Board Committees, each of these Directors made a valuable contribution to the affairs of the Company, and we thank them sincerely for their years of service.

At the Annual Meeting four new individuals were elected to the Board of Directors, namely: George Bain, formerly Principal of London Business School and President and Vice-Chancellor of Queen's University, Belfast; Henri-Paul Rousseau, Vice-Chair of Power Corporation; Raymond Royer, formerly President and Chief Executive Officer of Domtar Inc.; and Brian Walsh, founder and Managing Partner of Saguenay Capital LLC.

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and
Chief Executive Officer

FINANCIAL HIGHLIGHTS

(in $ millions except per share amounts)	As at or for the three months ended December 31, 2009	September 30, 2009	December 31, 2008	For the years ended December 31, 2009	December 31, 2008
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	$ 3,647	$ 3,614	$ 3,903	$ 15,085	$ 27,425
Self-funded premium equivalents (ASO contracts)	632	610	615	2,499	2,410
Segregated funds deposits:					
Individual products	1,691	1,203	1,553	5,765	6,932
Group products	781	1,326	852	4,231	3,321
Proprietary mutual funds deposits	140	122	167	565	708
Total premiums and deposits	6,891	6,875	7,090	28,145	40,796
Fee and other income	407	420	409	1,599	1,685
Paid or credited to policyholders	3,377	7,183	3,966	19,226	24,461
Summary of net income attributable to:					
Participating account	3	–	13	24	59
Preferred shareholders	2	3	2	9	9
Common shareholder	508	459	473	1,735	1,894
Per common share					
Basic earnings	$ 243.19	$ 219.64	$ 226.55	$ 830.46	$ 906.69
Dividends paid	154.65	154.93	126.68	613.78	465.83
Book value	5,320.00	5,303.00	5,350.00		
Total assets	$ 101,084	$ 101,925	$ 100,462		
Segregated funds net assets	67,805	66,994	59,924		
Proprietary mutual funds net assets	2,811	2,724	2,172		
Total assets under management	171,700	171,643	162,558		
Other assets under administration [1]	11,015	11,002	10,626		
Total assets under administration	$ 182,715	$ 182,645	$ 173,184		
Participating account surplus	$ 1,999	$ 2,002	$ 1,997		
Shareholder equity	11,269	11,235	11,332		
Total participating account surplus and shareholder equity	$ 13,268	$ 13,237	$ 13,329		

[1] Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate with asset levels.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of non-management directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to the Insurance Companies Act (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders and Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with generally accepted accounting principles.

D. Allen Loney President and Chief Executive Officer	**William W. Lovatt** Executive Vice-President and Chief Financial Officer

February 11, 2010

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2009	2008
Income		
Premium income	$ 15,085	$ 27,425
Net investment income (note 3)		
Regular net investment income	4,807	4,802
Changes in fair value on held for trading assets	2,637	(4,056)
Total net investment income	7,444	746
Fee and other income	1,599	1,685
	24,128	29,856
Benefits and expenses		
Policyholder benefits	13,991	14,471
Policyholder dividends and experience refunds	1,239	1,175
Change in actuarial liabilities	3,996	8,815
Total paid or credited to policyholders	19,226	24,461
Commissions	1,198	1,192
Operating expenses	1,305	1,394
Premium taxes	231	195
Financing charges (note 10)	66	70
Amortization of finite life intangible assets	38	32
Income before income taxes	2,064	2,512
Income taxes – current (note 22)	(29)	335
– future (note 22)	318	208
Net income before non-controlling interests	1,775	1,969
Non-controlling interests	7	7
Net income	1,768	1,962
Net income – participating account (note 15)	24	59
Net income – shareholders	1,744	1,903
Preferred share dividends	9	9
Net income – common shareholder	$ 1,735	$ 1,894
Earnings per common share	$ 830.46	$ 906.69

CONSOLIDATED BALANCE SHEETS

7(in $ millions)

December 31	2009	2008
Assets		
Bonds (note 3)	$ 50,183	$ 50,113
Mortgage loans (note 3)	15,033	15,730
Stocks (note 3)	5,904	4,705
Real estate (note 3)	2,964	3,023
Loans to policyholders	2,786	2,768
Cash and cash equivalents	3,030	2,561
Funds held by ceding insurers	10,839	11,447
Goodwill (note 7)	5,270	5,270
Intangible assets (note 7)	1,538	1,520
Other assets (note 8)	3,537	3,325
General funds assets	$ 101,084	$ 100,462
Segregated funds net assets	$ 67,805	$ 59,924
Liabilities		
Policy liabilities (note 9)		
Actuarial liabilities	$ 78,923	$ 77,572
Provision for claims	1,203	1,339
Provision for policyholder dividends	569	586
Provision for experience rating refunds	168	186
Policyholder funds	2,133	2,059
	82,996	81,742
Debentures and other debt instruments (note 11)	305	307
Funds held under reinsurance contracts	613	651
Other liabilities (note 12)	2,833	3,389
Repurchase agreements	17	87
Deferred net realized gains	127	149
	86,891	86,325
Capital trust securities and debentures (note 14)	778	658
Non-controlling interests (note 13)		
Perpetual preferred shares issued by subsidiary	147	150
Participating account surplus and shareholder equity		
Participating account surplus (note 15)		
Accumulated surplus	2,016	1,992
Accumulated other comprehensive income (loss) (note 20)	(17)	5
Share capital (note 16)		
Preferred shares	158	158
Common shares	6,116	6,116
Shareholder surplus		
Accumulated surplus	5,852	5,399
Accumulated other comprehensive loss (note 20)	(1,068)	(546)
Contributed surplus	211	205
	13,268	13,329
General funds liabilities, participating account surplus and shareholder equity	$ 101,084	$ 100,462
Segregated funds	$ 67,805	$ 59,924

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2009	2008
Participating account surplus		
Accumulated surplus		
Balance, beginning of year	$ 1,992	$ 1,938
Net income	24	59
Repatriation of Canada Life seed capital to shareholder account (note 15)	–	(5)
Balance, end of year	$ 2,016	$ 1,992
Accumulated other comprehensive income (loss), net of income taxes (note 20)		
Balance, beginning of year	$ 5	$ (21)
Other comprehensive income (loss)	(22)	26
Balance, end of year	$ (17)	$ 5
Shareholder surplus		
Accumulated surplus		
Balance, beginning of year	$ 5,399	$ 4,473
Net income	1,744	1,903
Repatriation of Canada Life seed capital from participating policyholder account (note 15)	–	5
Dividends to shareholders		
Preferred shareholders	(9)	(9)
Common shareholder	(1,282)	(973)
Balance, end of year	$ 5,852	$ 5,399
Accumulated other comprehensive loss, net of income taxes (note 20)		
Balance, beginning of year	$ (546)	$ (576)
Other comprehensive income (loss)	(522)	30
Balance, end of year	$ (1,068)	$ (546)
Contributed surplus		
Balance, beginning of year	$ 205	$ 199
Stock option expense (note 18)	6	6
Balance, end of year	$ 211	$ 205

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2009	2008
Net income	$ 1,768	$ 1,962
Other comprehensive income (loss), net of income taxes		
Unrealized foreign exchange gains (losses) on translation of foreign operations	(483)	137
Unrealized gains (losses) on available for sale assets	(9)	(47)
Realized (gains) losses on available for sale assets	(52)	(34)
	(544)	56
Comprehensive income	$ 1,224	$ 2,018

Income tax (expense) benefit included in other comprehensive income

For the years ended December 31	2009	2008
Unrealized foreign exchange gains (losses) on translation of foreign operations	$ 4	$ (1)
Unrealized gains (losses) on available for sale assets	(5)	19
Realized (gains) losses on available for sale assets	16	12
	$ 15	$ 30

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2009	2008
Operations		
Net income	$ 1,768	$ 1,962
Adjustments:		
Change in policy liabilities	3,800	(3,106)
Change in funds held by ceding insurers	436	1,299
Change in funds held under reinsurance contracts	67	95
Change in current income taxes payable	(357)	(285)
Future income tax expense	318	208
Changes in fair value of financial instruments	(2,637)	4,056
Other	(130)	(392)
Cash flows from operations	3,265	3,837
Financing activities		
Repayment of debentures and other debt instruments	(1)	(201)
Dividends paid	(1,291)	(982)
	(1,292)	(1,183)
Investment activities		
Bond sales and maturities	14,015	12,585
Mortgage loan repayments	1,792	1,834
Stock sales	2,432	2,109
Real estate sales	2	84
Change in loans to policyholders	(83)	(99)
Acquisition of intangible assets (note 7)	(31)	(20)
Investment in bonds	(15,168)	(13,342)
Investment in mortgage loans	(1,409)	(3,047)
Investment in stocks	(2,701)	(2,606)
Investment in real estate	(100)	(871)
	(1,251)	(3,373)
Effect of changes in exchange rates on cash and cash equivalents	(253)	77
Increase (decrease) in cash and cash equivalents	469	(642)
Cash and cash equivalents, beginning of year	2,561	3,203
Cash and cash equivalents, end of year	$ 3,030	$ 2,561
Supplementary cash flow information		
Income taxes paid (net of refunds)	$ 354	$ 688
Interest paid	$ 72	$ 75

SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

(in $ millions)

December 31	2009	2008
Bonds	$ 8,379	$ 7,584
Mortgage loans	1,744	1,952
Stocks	47,168	38,658
Real estate	6,012	6,744
Cash and cash equivalents	5,538	5,718
Income due and accrued	156	270
Other assets (liabilities)	(1,192)	(1,002)
	$ 67,805	$ 59,924

SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in $ millions)

For the years ended December 31	2009	2008
Segregated funds net assets, beginning of year	$ 59,924	$ 71,614
Additions (deductions):		
Policyholder deposits	9,996	10,253
Net investment income	756	978
Net realized capital gains (losses) on investments	306	(2,866)
Net unrealized capital gains (losses) on investments	6,338	(11,198)
Unrealized gains (losses) due to change in foreign exchange rates	(1,745)	(422)
Policyholder withdrawals	(7,972)	(8,645)
Net transfer from General Fund	202	210
	7,881	(11,690)
Segregated funds net assets, end of year	$ 67,805	$ 59,924

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of The Great-West Life Assurance Company (Great-West Life or the Company) include the accounts of its subsidiary companies and have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act, which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2009 are:

London Insurance Group Inc. (LIG)
Canada Life Financial Corporation (CLFC)
GWL Investment Management Ltd. (GWLIM)
GWL Realty Advisors Inc.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of policy liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post-retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of policy liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact policy liabilities.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. As a result of the adoption of the new requirements software costs previously included in other assets have been reclassified to intangible assets and amortization on software costs previously included in operating expenses has been reclassified to amortization of finite life intangible assets.

Financial Instruments – Recognition and Measurement

For the year ended December 31, 2009, the Company adopted the amendments that the CICA issued to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The amendments revise the definition of loans and receivables to allow debt securities not quoted in an active market to be classified as loans and receivables. Loans and receivables expected to be sold in the near term are reclassified as held for trading and those that the holder may not recover substantially all of its initial investment, other than because of credit deterioration must be classified as available for sale. Impairments on debt securities classified as loans and receivables will be in accordance with Section 3025, *Impaired Loans*. The amendments require reversal of impairment losses, and permit reclassifications between certain categories in certain circumstances. The amendments did not have a material impact to the financial statements of the Company.

Financial Instrument Disclosures

Effective January 1, 2009, the Company adopted the amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*. Disclosure standards have been expanded to be consistent with new disclosure requirements made under International Financial Reporting Standards (IFRS). The new requirements introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The new requirements are for disclosure only and did not impact the financial results of the Company.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are either designated or classified as held for trading or classified as available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income (OCI). Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 3).

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Summaries of Consolidated Operations and included in investment income earned.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $160 ($197 in 2008) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds – Held for Trading and Available for Sale

Fair values for bonds classified as held for trading or available for sale are determined with reference to quoted market bid prices primarily provided by third party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its held for trading and available for sale portfolios.

The Company estimates the fair value of bonds not traded in active markets by referring to actively-traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate, and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Stocks – Held for Trading and Available for Sale

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its held for trading and available for sale portfolios.

Mortgages and Bonds – Loans and Receivables and Real Estate

Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (AOCI) is reclassified to net investment income. Impairments on available for sale assets are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(c) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Financial Liabilities

Financial liabilities, other than policy liabilities, are classified as other liabilities. Other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Summaries of Consolidated Operations.

(f) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivative financial instruments used by the Company are summarized in note 23, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by OSFI.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 8 and 12). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately to net investment income.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate futures, interest rate swaps and cross-currency swaps are used to hedge cash flows. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item in either net investment income or OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI are recorded in net investment income in the same period the hedged item affects net income. Gains and losses on cash flow hedges are immediately reclassified from OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently has no derivatives designated as cash flow hedges.

Net investment hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

(g) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(h) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(i) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(j) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of software, customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 10 years, 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the Company is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Indefinite life intangibles

The fair value of intangible assets for customer contracts and the Shareholder portion of acquired future Participating account profits is estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

(k) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, policy liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from management services.

(l) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $27 ($29 in 2008).

(m) Policy Liabilities

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuary of the Company is responsible for determining the amount of the policy liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuary determines the policy liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Policy liabilities of the Company are discussed in note 9.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(n) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account, $77 in 2009 ($67 in 2008). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. $52 of shareholder surplus ($51 in 2008) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

The Canada Life Assurance Company (Canada Life) participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net income.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, $50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. $28 of seed capital has been repaid to date.

(o) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 22).

(p) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(q) Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 19).

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 19).

(r) Stock Based Compensation

Great-West Lifeco Inc. (Lifeco), the Company's parent, has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates, which is described in note 18. The Company follows the fair value method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan. Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of granted options.

(s) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding of 2,088,655 in 2009 and 2008.

(t) Geographic Segmentations

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe/Reinsurance operations.

(u) Comparative Figures

Certain of the 2008 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year as a result of the reclassifications in note 1(a) and certain other reclassifications. On the Consolidated Balance Sheets these reclassifications resulted in a decrease to other assets of $101 at December 31, 2008 with a corresponding increase to intangible assets. On the Summaries of Consolidated Operations these reclassifications resulted in a decrease to operating expenses of $3, a decrease to commissions of $11 and an increase to amortization of finite life intangible assets of $14 for the year ended December 31, 2008.

(v) Future Accounting Policies

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has mandated that all Canadian publicly accountable entities are required to transition from Canadian generally accepted accounting principles (GAAP) to IFRS for fiscal years beginning on or after January 1, 2011. Consequently, the Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative information for 2010.

The Company continues to evaluate the financial statement impact of transitioning from Canadian GAAP to IFRS and the related effect on its information systems and processes. Until this effort is complete, the impact of adopting IFRS and the related effects on the Company's consolidated financial statements cannot be reasonably determined.

The IFRS standard that deals with the measurement of insurance contracts, also referred to as Phase II Insurance Contracts, is currently being developed and a final accounting standard is not expected before 2011. As a consequence, the Company will continue to measure insurance liabilities using CALM until such time when a new IFRS standard for insurance contract measurement is issued.

2. Acquisitions

On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $1.4 billion in assets under administration. The financial statements of the Company do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however the Company will earn fee and other income from it.

3. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

	2009							
	Carrying value & market value			Amortized cost				Total
		Held for trading [1]						
	Available for sale	Designated	Classified	Carrying value loans and receivables	Market value loans and receivables	Carrying value non-financial instruments	Market value non-financial instruments	Carrying value
Bonds								
– government	$ 1,520	$ 13,451	$ 755	$ 244	$ 266	$ –	$ –	$ 15,970
– corporate	969	26,551	857	5,836	5,888	–	–	34,213
	2,489	40,002	1,612	6,080	6,154	–	–	50,183
Mortgage loans								
– residential	–	–	–	5,783	6,009	–	–	5,783
– non-residential	–	–	–	9,250	9,233	–	–	9,250
	–	–	–	15,033	15,242	–	–	15,033
Stocks	648	4,928	–	–	–	328	389	5,904
Real estate	–	–	–	–	–	2,964	2,897	2,964
	$ 3,137	$ 44,930	$ 1,612	$ 21,113	$ 21,396	$ 3,292	$ 3,286	$ 74,084

[1] Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

3. Portfolio Investments (cont'd)

	2008							
	Carrying value & market value			Amortized cost				Total
	Available for sale	Held for trading [1] Designated	Held for trading [1] Classified	Carrying value loans and receivables	Market value loans and receivables	Carrying value non-financial instruments	Market Value non-financial instruments	Carrying value
Bonds								
– government	$ 2,101	$ 13,392	$ 811	$ 310	$ 327	$ –	$ –	$ 16,614
– corporate	1,193	25,689	825	5,792	5,437	–	–	33,499
	3,294	39,081	1,636	6,102	5,764	–	–	50,113
Mortgage loans								
– residential	–	–	–	6,530	6,716	–	–	6,530
– non-residential	–	–	–	9,200	9,180	–	–	9,200
	–	–	–	15,730	15,896	–	–	15,730
Stocks	722	3,653	–	–	–	330	326	4,705
Real estate	–	–	–	–	–	3,023	2,858	3,023
	$ 4,016	$ 42,734	$ 1,636	$ 21,832	$ 21,660	$ 3,353	$ 3,184	$ 73,571

[1] Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

During 2008, the Company concluded that an internal model would result in a more representative measurement of fair market value for a portfolio of bonds. An external valuation source was previously used. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2009	2008
Carrying value, beginning of year	$ 330	$ 320
Equity method earnings	17	28
Dividends	(19)	(18)
Carrying value, end of year	**$ 328**	$ 330
Share of equity, end of year	**$ 150**	$ 148
Fair value, end of year	**$ 389**	$ 326

The Company owns 9,205,200 shares of IGM at December 31, 2009 (9,205,897 at December 31, 2008) representing a 3.49% ownership interest (3.51% at December 31, 2008).

(c) Included in portfolio investments are the following:

(i) Impaired investments

	2009		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 246	$ (144)	$ 102
Available for sale	50	(33)	17
Loans and receivables	115	(32)	83
Total	**$ 411**	**$ (209)**	**$ 202**

	2008		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 112	$ (94)	$ 18
Available for sale	13	(13)	–
Loans and receivables	51	(26)	25
Total	$ 176	$ (133)	$ 43

Impaired investments include $57 of capital securities that have deferred coupons on a non-cumulative basis.

[1] Excludes amounts in funds held by ceding insurers of $10 and impairment of $(4) at December 31, 2009 and $15 and $(11) at December 31, 2008.

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2009			2008		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	$ 8	$ 18	$ 26	$ 9	$ 10	$ 19
Net provision (recovery) for credit losses – in year	5	12	17	1	4	5
Write-offs, net of recoveries	–	(7)	(7)	(3)	2	(1)
Other (including foreign exchange rate changes)	(2)	(2)	(4)	1	2	3
Balance, end of year	$ 11	$ 21	$ 32	$ 8	$ 18	$ 26

(iii) The Company holds investments with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. Their carrying value is as follows:

	2009	2008
Bonds	$ 15	$ –
Bonds with equity conversion features	169	–
Mortgages	1	1
	$ 185	$ 1

(d) Net investment income is comprised of the following:

	2009					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,204	$ 817	$ 174	$ 174	$ 433	$ 4,802
Net realized gains (losses) *(available for sale)*	73	–	(5)	–	–	68
Net realized gains (losses) *(other classifications)*	3	19	–	–	–	22
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	(17)	–	(17)
Net (provision) recovery of credit losses *(loans and receivables)*	(5)	(12)	–	–	–	(17)
Other income and expenses	–	–	–	–	(51)	(51)
	3,275	824	169	157	382	4,807
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	3	–	–	–	–	3
Net realized/unrealized gains (losses) *(designated held for trading)*	1,612	–	958	–	64	2,634
	1,615	–	958	–	64	2,637
Net investment income	$ 4,890	$ 824	$ 1,127	$ 157	$ 446	$ 7,444

3. Portfolio Investments (cont'd)

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,331	$ 865	$ 183	$ 159	$ 222	$ 4,760
Net realized gains (losses) *(available for sale)*	45	–	(12)	–	–	33
Net realized gains (losses) *(other classifications)*	21	21	–	–	–	42
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	23	–	23
Net (provision) recovery of credit losses *(loans and receivables)*	(1)	(4)	–	–	–	(5)
Other income and expenses	–	–	–	–	(51)	(51)
	3,396	882	171	182	171	4,802
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	11	–	–	–	–	11
Net realized/unrealized gains (losses) *(designated held for trading)*	(2,546)	–	(1,632)	–	111	(4,067)
	(2,535)	–	(1,632)	–	111	(4,056)
Net investment income	$ 861	$ 882	$ (1,461)	$ 182	$ 282	$ 746

Investment income earned is comprised of income from investments that are classified or designated as held for trading, classified as available for sale and classified as loans and receivables.

4. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors or the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2009	2008
Cash and cash equivalents	$ 3,030	$ 2,561
Bonds		
Held for trading	41,614	40,717
Available for sale	2,489	3,294
Amortized cost	6,080	6,102
Mortgage loans	15,033	15,730
Loans to policyholders	2,786	2,768
Other financial assets	13,131	13,648
Derivative assets	658	564
Total balance sheet maximum credit exposure	$ 84,821	$ 85,384

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Derivative assets are reduced by $35 of collateral received in 2009 and increased by $25 of collateral paid in 2008.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2009			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 2,264	$ 14	$ –	$ 2,278
Canadian provincial and municipal governments	4,917	55	26	4,998
U.S. Treasury and other U.S. agencies	240	758	447	1,445
Other foreign governments	104	5,773	–	5,877
Government related	778	1,372	–	2,150
Sovereign	783	762	4	1,549
Asset-backed securities	2,636	842	463	3,941
Residential mortgage backed securities	46	60	86	192
Banks	2,201	2,299	40	4,540
Other financial institutions	1,021	1,507	127	2,655
Basic materials	151	198	72	421
Communications	598	473	38	1,109
Consumer products	1,384	1,664	218	3,266
Industrial products/services	516	206	119	841
Natural resources	1,000	577	78	1,655
Real estate	559	1,216	–	1,775
Transportation	1,414	594	81	2,089
Utilities	3,008	2,695	377	6,080
Miscellaneous	1,489	182	39	1,710
Total long term bonds	25,109	21,247	2,215	48,571
Short term bonds	1,475	137	–	1,612
	$ 26,584	$ 21,384	$ 2,215	$ 50,183

4. Financial Instrument Risk Management (cont'd)

	2008			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 1,854	$ 11	$ –	$ 1,865
Canadian provincial and municipal governments	4,493	73	34	4,600
U.S. Treasury and other U.S. agencies	333	952	577	1,862
Other foreign governments	163	6,691	–	6,854
Government related	743	820	–	1,563
Sovereign	898	834	7	1,739
Asset backed securities	2,637	863	506	4,006
Residential mortgage backed securities	89	73	119	281
Banks	2,065	2,488	93	4,646
Other financial institutions	982	1,505	129	2,616
Basic materials	146	192	75	413
Communications	526	378	52	956
Consumer products	1,298	1,627	244	3,169
Industrial products/services	627	638	122	1,387
Natural resources	842	564	73	1,479
Real estate	497	1,148	–	1,645
Transportation	1,313	662	63	2,038
Utilities	2,710	2,553	353	5,616
Miscellaneous	1,351	215	28	1,594
Total long term bonds	23,567	22,287	2,475	48,329
Short term bonds	1,449	250	85	1,784
	$ 25,016	$ 22,537	$ 2,560	$ 50,113

The following table provides details of the carrying value of mortgage loans by geographic location:

	2009			
	Single family residential	**Multi-family residential**	**Commercial**	**Total**
Canada	**$ 1,695**	**$ 3,965**	**$ 6,371**	**$ 12,031**
United States	**–**	**94**	**249**	**343**
Europe/Reinsurance	**–**	**29**	**2,630**	**2,659**
Total mortgage loans	**$ 1,695**	**$ 4,088**	**$ 9,250**	**$ 15,033**

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,850	$ 4,524	$ 6,144	$ 12,518
United States	–	120	323	443
Europe/Reinsurance	–	36	2,733	2,769
Total mortgage loans	$ 1,850	$ 4,680	$ 9,200	$ 15,730

(iii) Asset Quality

Bond Portfolio Quality	**2009**	2008
AAA	**$ 16,071**	$ 17,775
AA	**8,817**	9,386
A	**16,284**	15,027
BBB	**6,666**	6,016
BB and lower	**733**	125
	48,571	48,329
Short term bonds	**1,612**	1,784
Total bonds	**$ 50,183**	$ 50,113

Derivative Portfolio Quality	2009	2008
Over-the-counter contracts (counterparty ratings):		
AA	$ 325	$ 162
A	368	377
Total	$ 693	$ 539

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2009	2008
Less than 30 days	$ 45	$ 50
30–90 days	6	2
90 days and greater	9	1
Total	$ 60	$ 53

(v) Performing Securities Subject to Deferred Coupons

	Payment resumption date		
	< 1 year	1 to 2 years	> 2 years
Coupon payment receivable	$ –	$ –	$ 1

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.
- Management monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Company's financial liabilities.

		Payments due by period					
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 305	$ 1	$ 1	$ 1	$ 1	$ 1	$ 300
Capital trust debentures [1]	800	–	–	–	–	–	800
Purchase obligations	23	20	3	–	–	–	–
Pension contributions	64	64	–	–	–	–	–
	$ 1,192	$ 85	$ 4	$ 1	$ 1	$ 1	$ 1,100

[1] Payments due have not been reduced to reflect the Company held capital trust securities of $37 principal amount ($41 carrying value).

4. Financial Instrument Risk Management (cont'd)

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. If the assets backing policy liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The following policies and procedures are in place to mitigate the Company's exposure to currency risk.

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating policy liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net income. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating policy liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net income.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows such as long-tail cash flows a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched protection against interest rate change is achieved as any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Cash flows from fixed income assets are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.25% (0.19% in 2008). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in policy liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2009	2008
Participating	$ **703**	$ 532
Non-participating	**1,476**	1,040
	$ **2,179**	$ 1,572

Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the policy liabilities impacting the shareholder income of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these policy liabilities by approximately $13 causing an increase in net income of approximately $5.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately $288 causing a decrease in net income of approximately $193.

In addition to above, if this change in the yield curve persisted for an extended period the range of the tested scenarios might change. The effect of an immediate 1% parallel decrease or increase in the yield curve persisting for a year would have immaterial additional effects on the reported policy liability.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees consisting of purchasing equity futures, currency forwards, and interest rate swaps. For policies with segregated fund guarantees, the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level.

Some policy liabilities are supported by real estate, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating policy liabilities by approximately $34 causing an increase in net income of approximately $26. A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately $103 causing a decrease in net income of approximately $73.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating policy liabilities by approximately $344 causing an increase in net income of approximately $250. A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately $387 causing a decrease in net income of approximately $279.

5. Financial Instrument Fair Value Measurement

In accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, the Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, some private bonds, most investment grade and high yield corporate bonds, certain asset backed securities (ABS) and some over the counter derivatives.

5. Financial Instrument Fair Value Measurement (cont'd)

Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over the counter derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Assets and liabilities measured at fair value			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through net income				
Bonds	$ –	$ 41,523	$ 91	$ 41,614
Stocks	4,783	–	145	4,928
Total financial assets at fair value through net income	4,783	41,523	236	46,542
Available for sale financial assets				
Bonds	–	2,467	22	2,489
Stocks	65	–	1	66
Total available for sale financial assets	65	2,467	23	2,555
Other assets – derivatives [1]	–	676	17	693
Total assets measured at fair value	$ 4,848	$ 44,666	$ 276	$ 49,790
Liabilities measured at fair value				
Other liabilities – derivatives	$ –	$ 188	$ –	$ 188

[1] Excludes collateral received of $35.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value for the year ended December 31, 2009:

	Level 3 financial assets and liabilities				
	Held for trading bonds	Available for sale bonds	Other assets – derivatives	Held for trading stocks	Available for sale stocks
Balance, January 1, 2009	$ 140	$ 46	$ 18	$ 20	$ 1
Total gains/(losses)					
Included in net income	(1)	(10)	(1)	(2)	–
Included in other comprehensive income	–	13	–	–	–
Purchases	–	–	–	127	–
Sales	(1)	–	–	–	–
Settlements	(11)	(9)	–	–	–
Transfers in to level 3	15	2	–	–	–
Transfers out of level 3	(51)	(20)	–	–	–
Balance, December 31, 2009	$ 91	$ 22	$ 17	$ 145	$ 1
Total gains/(losses) for the year included in net income for assets held at December 31, 2009	$ 2	$ (10)	$ (1)	$ (2)	$ –

6. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $5 ($6 in 2008), in respect of derivative transactions and $595 ($600 in 2008), in respect of reinsurance agreements.

7. Goodwill and Intangible Assets

(a) Goodwill

The carrying value of goodwill, all in the shareholder account, and changes in the carrying value of goodwill are as follows:

	2009	2008
Balance, beginning of year	$ 5,270	$ 5,269
Changes in foreign exchange rates	–	1
Balance, end of year	$ 5,270	$ 5,270

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

	2009			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ (28)	$ 382
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(28)	1,090
Finite life intangible assets				
– Customer contract related	335	(93)	(4)	238
– Distribution channels	127	(24)	(16)	87
– Software	204	(81)	–	123
	666	(198)	(20)	448
Total	$ 1,784	$ (198)	$ (48)	$ 1,538

	2008			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ (19)	$ 391
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(19)	1,099
Finite life intangible assets				
– Customer contract related	304	(77)	(4)	223
– Distribution channels	127	(20)	(10)	97
– Software	179	(78)	–	101
	610	(175)	(14)	421
Total	$ 1,728	$ (175)	$ (33)	$ 1,520

During 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (note 2), the Company acquired approximately $20 of finite life intangible assets relating to customer contract related intangible assets. During 2009, the Company recognized an additional $31 of finite life intangible assets as part of the finalization of the transaction.

8. Other Assets

Other assets consist of the following:

	2009	2008
Premiums in course of collection	$ 393	$ 450
Interest due and accrued	826	890
Derivative financial instruments	658	564
Current income taxes	728	382
Future income taxes (note 22)	67	92
Fixed assets	91	98
Prepaid expenses	58	58
Accounts receivable	264	281
Accrued pension asset (note 19)	317	258
Other	135	252
	$ 3,537	$ 3,325

9. Policy Liabilities

(a) Composition of Policy Liabilities and Related Supporting Assets

(i) The composition of policy liabilities is as follows:

	Participating		Non-participating		Total	
	2009	2008	2009	2008	2009	2008
Individual Insurance & Investment Products	$ 23,097	$ 21,180	$ 16,619	$ 15,480	$ 39,716	$ 36,660
Group Insurance	–	–	5,841	5,666	5,841	5,666
Europe/Reinsurance	1,428	1,665	33,212	34,578	34,640	36,243
Corporate	1,483	1,627	1,316	1,546	2,799	3,173
Total	$ 26,008	$ 24,472	$ 56,988	$ 57,270	$ 82,996	$ 81,742

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2009					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 12,283	$ 6,234	$ 3,747	$ 286	$ 3,458	$ 26,008
Non-participating						
Individual Insurance & Investment Products	10,684	3,684	923	13	1,315	16,619
Group Insurance	3,616	1,643	68	–	514	5,841
Europe/Reinsurance	16,818	2,314	131	1,770	12,179	33,212
Corporate	927	187	–	–	202	1,316
Other liabilities	2,385	458	700	174	1,103	4,820
Participating account surplus	1,443	356	97	44	59	1,999
Capital and surplus	2,027	157	238	677	8,170	11,269
Total carrying value	$ 50,183	$ 15,033	$ 5,904	$ 2,964	$ 27,000	$ 101,084
Market value	$ 50,257	$ 15,242	$ 5,965	$ 2,897	$ 27,000	$ 101,361

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 11,817	$ 6,346	$ 2,808	$ 284	$ 3,217	$ 24,472
Non-participating						
Individual Insurance & Investment Products	9,269	3,847	713	9	1,642	15,480
Group Insurance	3,227	1,736	57	–	646	5,666
Europe/Reinsurance	17,026	2,328	158	1,831	13,235	34,578
Corporate	1,088	241	–	–	217	1,546
Other liabilities	2,459	566	583	202	1,581	5,391
Participating account surplus	1,338	395	2	38	224	1,997
Capital and surplus	3,889	271	384	659	6,129	11,332
Total carrying value	$ 50,113	$ 15,730	$ 4,705	$ 3,023	$ 26,891	$ 100,462
Market value	$ 49,775	$ 15,896	$ 4,701	$ 2,858	$ 26,891	$ 100,121

Cash flows of assets supporting policy liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of policy liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) Changes in Policy Liabilities

The change in policy liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2009	2008	2009	2008	2009	2008
Balance, beginning of year	**$ 24,472**	$ 24,876	**$ 57,270**	$ 49,942	**$ 81,742**	$ 74,818
Impact of new business	**(14)**	(8)	**2,501**	2,920	**2,487**	2,912
Normal change in force	**2,012**	(856)	**(84)**	(5,342)	**1,928**	(6,198)
Management action and changes in assumptions	**(74)**	43	**(317)**	37	**(391)**	80
Business movement from/to affiliates	–	–	**(1)**	–	**(1)**	–
Business movement from/to external parties	–	–	**(9)**	12,162	**(9)**	12,162
Impact of foreign exchange rate changes	**(388)**	417	**(2,372)**	(2,449)	**(2,760)**	(2,032)
Balance, end of year	**$ 26,008**	$ 24,472	**$ 56,988**	$ 57,270	**$ 82,996**	$ 81,742

Under fair value accounting, movement in the market value of the supporting assets is a major factor in the movement of policy liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the policy liabilities associated with the change in the value of the supporting assets is included in the Normal Change In Force above.

In 2009, the major contributors to the increase in policy liabilities was the impact of new business and the normal change in the in force business mostly offset by the impact of foreign exchange rates.

Non-participating policy liabilities decreased by $317 in 2009 due to management actions and assumption changes. The decrease was primarily due to improved Individual Life mortality ($263 decrease), reduced provisions for asset liability matching ($220 decrease) and modeling refinements in individual life and annuities ($129 decrease) partially offset by strengthening of asset default and expense ($164 increase), modeling refinements in reinsurance ($52 increase), the future tax impact of a change in asset mix targets for long-tail liabilities ($52 increase) and increased provisions for policyholder behavior ($30 increase).

Participating policy liabilities decreased by $74 in 2009 due to management actions and assumption changes. This decrease was primarily due to a decrease in the provision for future policyholder dividends ($1,495 decrease) and improved life mortality ($168 decrease) partially offset by lowered investment returns ($1,588 increase).

In 2008, the major contributors to the increase in policy liabilities were the reinsurance of a large block of U.K. payout annuities from Standard Life Assurance Limited and the impact of new business, partially offset by the normal change in the in force business and the impact of foreign exchange rates.

Non-participating policy liabilities increased by $37 in 2008 due to management actions and assumption changes. This increase was primarily due to strengthened life annuitant mortality in Europe ($203 increase), strengthened provisions for asset default ($108 increase) and strengthened provisions for asset liability matching ($123 increase), partially offset by improved morbidity ($158 decrease), Canadian Individual Life mortality ($105 decrease) and two annuitant mortality risk transfer agreements ($98 decrease).

9. Policy Liabilities (cont'd)

Participating policy liabilities increased by $43 in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns ($76 increase) and an increase in the provision for future policyholder dividends ($93 increase), partially offset by improved life mortality ($66 decrease) and improved expenses and taxes ($62 decrease).

(c) Actuarial Assumptions

In the computation of policy liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would increase non-participating policy liabilities by approximately $164 causing a decrease in net income of approximately $123.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would increase non-participating policy liabilities by approximately $219 causing a decrease in net income of approximately $177.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would increase non-participating policy liabilities by approximately $224 causing a decrease in net income of approximately $155.

Property and casualty reinsurance

Policy liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of the London Life Insurance Company (London Life), are determined using accepted actuarial practices for property and casualty insurers in Canada. Reflecting the long-term nature of the business, policy liabilities have been established using cash flow valuation techniques including discounting. The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 4(c)).

Expenses

Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would increase the non-participating policy liabilities by approximately $64 causing a decrease in net income of approximately $46.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $263 causing a decrease in net income of approximately $184.

Utilization of elective policy options

There is a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of policy liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is our expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in policy liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholder income is reflected in the impacts of changes in best estimate assumptions above.

(d) Ceded Reinsurance

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, policy liabilities have been reduced by the following amounts:

	2009	2008
Participating	$ (9)	$ 34
Non-participating	5,066	5,693
	$ 5,057	$ 5,727

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured policy liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

10. Financing Charges

Financing charges consist of the following:

	2009	2008
Interest on long-term debentures and other debt instruments	$ 20	$ 30
Interest on capital trust debentures	47	49
Other	4	3
Distributions on capital trust securities held by consolidated group as temporary investments	(5)	(12)
Total	$ 66	$ 70

11. Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	2009		2008	
	Carrying value	Market value	Carrying value	Market value
Long term				
Operating:				
Notes payable with interest of 8.0% due May 6, 2014, unsecured	$ 5	$ 5	$ 6	$ 6
Capital:				
Great-West				
6.74% debentures due November 24, 2036, unsecured	200	200	200	200
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	100	105	100	86
Acquisition related fair market value adjustment	–	–	1	–
	100	105	101	86
	300	305	301	286
Total debentures and other debt instruments	$ 305	$ 310	$ 307	$ 292

On December 11, 2008, Canada Life repaid $200 principal amount of its 5.8% subordinated debentures, Series A.

12. Other Liabilities

Other liabilities consist of the following:

	2009	2008
Current income taxes	$ 140	$ 153
Accounts payable	428	487
Pension and other post-retirement benefits (note 19)	434	446
Future income taxes (note 22)	603	304
Derivative financial instruments	188	780
Other	1,040	1,219
	$ 2,833	$ 3,389

13. Perpetual Preferred Shares Issued by Subsidiary

	2009	2008
Perpetual preferred shares:		
Classified as non-controlling interests		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	2	5
	$ 147	$ 150

14. Capital Trust Securities and Debentures

	2009		2008	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures				
5.995% Senior debentures due December 31, 2052, unsecured (GWLCT)	$ 350	$ 383	$ 350	$ 361
6.679% Senior debentures due June 30, 2052, unsecured (CLCT)	300	331	300	315
7.529% Senior debentures due June 30, 2052, unsecured (CLCT)	150	186	150	156
	800	900	800	832
Acquisition related fair market value adjustment	19	–	25	–
Trust securities held by consolidated group as temporary investments	(41)	(41)	(167)	(165)
Total	$ 778	$ 859	$ 658	$ 667

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 10).

Pursuant to the CLFC acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these Capital Trust Debentures. During the year ended December 31, 2009, the Company disposed of $138 principal amount of capital trust securities held by the consolidated group as temporary investments.

15. Participating Account

The Company controlled a 100% equity interest in London Life and Canada Life at December 31, 2009 and 2008. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

On demutualization, $50 of seed capital was transferred from the shareholder account to the participating policyholder account of Canada Life. In accordance with the Conversion Proposal of Canada Life, the seed capital amount, together with a reasonable rate of return, may be transferred back to the shareholder account if the seed capital is no longer required to support the new participating policies.

In 2008, $5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of $3 after-tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of $5 and a decrease in participating policyholder surplus of $5. $28 of seed capital has been repaid to date.

(a) Net income, participating account:

	2009	2008
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 139	$ 129
London Life	696	745
Canada Life	245	212
	1,080	1,086
Policyholder dividends		
Great-West Life	(121)	(122)
London Life	(702)	(679)
Canada Life	(233)	(226)
	(1,056)	(1,027)
Net income – participating account	$ 24	$ 59

(b) Participating account surplus:

	2009	2008
Participating account accumulated surplus:		
Great-West Life	$ 428	$ 410
London Life	1,562	1,568
Canada Life	26	14
	2,016	1,992
Participating account accumulated other comprehensive income (loss):		
Great-West Life	8	7
London Life	(29)	(19)
Canada Life	4	17
Accumulated other comprehensive income (loss) – participating account	(17)	5
	$ 1,999	$ 1,997

15. Participating Account (cont'd)

(c) Participating account – Other comprehensive income:

	2009	2008
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ 1	$ (1)
London Life	(10)	13
Canada Life	(13)	14
Other comprehensive income (loss) – participating account	$ (22)	$ 26

16. Share Capital

Authorized:

Unlimited Preferred Shares
Unlimited Common Shares

	2009		2008	
	Number	Carrying value	Number	Carrying value
Issued and outstanding:				
Preferred shares:				
Series O, 5.55% Non-Cumulative Preferred Shares	6,278,671	$ 157	6,278,671	$ 157
Series Q, 5.00% Non-Cumulative Preferred Shares	40,000	1	40,000	1
	6,318,671	$ 158	6,318,671	$ 158
Common shares	2,088,655	$ 6,116	2,088,655	$ 6,116
Total share capital		$ 6,274		$ 6,274

Preferred shares

The Series O, 5.55% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share and are convertible into Series P Preferred Shares at the option of the holder on October 31, 2010 and on October 31 in every fifth year thereafter, subject to regulatory approval.

The Series Q, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share on the later of December 31, 2007 and the date on which there are no Great-West Life Capital Trust Securities outstanding in GWLCT, subject to regulatory approval.

17. Capital Management

At the consolidated company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Great-West Life:

	2009	2008
Capital Available:		
Tier 1 Capital		
Common shares	$ 6,116	$ 6,116
Shareholder surplus	6,063	5,604
Qualifying non-controlling interests	147	150
Innovative instruments	774	648
Other Tier 1 Capital Elements	979	1,513
Gross Tier 1 Capital	14,079	14,031
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,696	5,673
Other deductions	1,330	1,697
Net Tier 1 Capital	7,053	6,661
Adjustments to Net Tier 1 Capital	(39)	–
Net Tier 1 Capital	7,014	6,661
Tier 2 Capital		
Tier 2A	325	345
Tier 2B allowed	300	300
Tier 2C	1,270	1,550
Tier 2 Deductions	(39)	–
Tier 2 Capital Allowed	1,856	2,195
Total Tier 1 and Tier 2 Capital	8,870	8,856
Less: Deductions/Adjustments	–	124
Total Available Capital	$ 8,870	$ 8,732
Capital Required:		
Assets Default & market risk	$ 1,705	$ 1,510
Insurance Risks	1,814	1,800
Interest Rate Risks	824	803
Other	11	50
Total Capital Required	$ 4,354	$ 4,163
MCCSR ratios:		
Tier 1	161%	160%
Total	204%	210%

As at December 31, 2009 and 2008 the Company maintained capital levels above the minimum local requirements in its other foreign operations.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to put amounts on deposit for certain reinsurance transactions. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. Some of these amounts on deposit support surplus.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

18. Stock Based Compensation

Lifeco has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Great-West Life and its affiliates. Lifeco's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

18. Stock Based Compensation (cont'd)

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to 8 years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2009		2008	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of year	**11,989,654**	**$ 24.16**	10,618,774	$ 21.11
Granted	**–**	**–**	2,690,000	31.27
Exercised	**(585,732)**	**13.31**	(1,251,496)	13.27
Forfeited	**–**	**–**	(67,624)	29.84
Outstanding, end of year	**11,403,922**	**$ 24.71**	11,989,654	$ 24.16
Options exercisable at end of year	**7,932,482**	**$ 21.18**	7,240,974	$ 18.95

There were no options granted during 2009. The weighted average fair value of options granted during 2008 was $3.23 per option. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2008: dividend yield 3.73%, expected volatility 13.84%, risk-free interest rate 3.32%, and expected life of 7 years.

In accordance with the fair value based method of accounting, compensation expense of $6 after tax in 2009 ($6 in 2008) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2009:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$11.14 – $19.42	2,412,823	1.01	13.33	2,412,823	13.33	2010
$17.14 – $19.42	659,799	2.34	17.44	659,799	17.44	2011
$19.42	76,800	2.73	19.42	76,800	19.42	2012
$19.42 – $29.84	2,202,500	4.02	21.28	2,202,500	21.28	2013
$24.37 – $26.00	569,000	4.84	25.23	569,000	25.23	2014
$29.84	1,660,000	6.46	29.84	1,328,000	29.84	2015
$35.36 – $37.22	1,133,000	7.72	37.12	135,960	37.12	2017
$31.27	2,690,000	8.87	31.27	547,600	31.27	2018

19. Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit pension plans at December 31, 2009 and 2008:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	**2009**	2008
Change in Plan Assets				
Fair value of assets, beginning of year	**$ 2,410**	$ 2,870	**$ –**	$ –
Employee contributions	**15**	15	**–**	–
Employer contributions	**77**	36	**17**	15
Return on plan assets	**344**	(383)	**–**	–
Benefits paid	**(144)**	(131)	**(17)**	(15)
Settlement	**(1)**	–	**–**	–
Foreign exchange rate changes	**(30)**	3	**–**	–
Fair value of assets, end of year	**$ 2,671**	$ 2,410	**$ –**	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	**$ 2,212**	$ 2,464	**$ 295**	$ 350
Employer current service cost	**34**	52	**1**	1
Employee contributions	**15**	15	**–**	–
Interest on accrued benefit obligation	**141**	141	**20**	19
Actuarial (gains) losses	**220**	(331)	**34**	(60)
Benefits paid	**(144)**	(131)	**(17)**	(15)
Past service cost	**1**	(1)	**–**	–
Curtailments and settlements	**(1)**	–	**–**	–
Foreign exchange rate changes	**(40)**	3	**–**	–
Accrued benefit obligation, end of year	**$ 2,438**	$ 2,212	**$ 333**	$ 295
Net funded status	**$ 233**	$ 198	**$ (333)**	$ (295)
Employer contributions after measurement date	**–**	7	**–**	1
Unamortized past service costs (credits)	**(118)**	(132)	**(36)**	(42)
Unamortized net losses (gains)	**206**	176	**5**	(30)
Unamortized transitional obligation	**1**	2	**–**	–
Valuation allowance	**(75)**	(73)	**–**	–
Accrued benefit asset (liability)	**$ 247**	$ 178	**$ (364)**	$ (366)
Recorded in:				
Other assets	**$ 317**	$ 258	**$ –**	$ –
Other liabilities	**(70)**	(80)	**(364)**	(366)
Accrued benefit asset (liability)	**$ 247**	$ 178	**$ (364)**	$ (366)
Plans with accrued benefit obligations in excess of plan assets [1]:				
Plans with plan assets				
Fair value of plan assets	**$ 345**	$ 289		
Accrued benefit obligation	**(462)**	(375)		
Plan deficit	**$ (117)**	$ (86)		
Plans without plan assets				
Accrued benefit obligation – Plan deficit	**$ (132)**	$ (119)	**$ (333)**	$ (295)

[1] The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

19. Pension Plans and Other Post-Retirement Benefits (cont'd)

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
Cost Recognized				
Amounts arising from events in the period				
Defined benefit service cost	$ 49	$ 67	$ 1	$ 1
Defined contribution service cost	3	3	–	–
Employee contributions	(15)	(15)	–	–
Employer service cost	37	55	1	1
Past service costs	1	(1)	–	–
Interest cost on accrued benefit obligation	141	141	20	19
Actual return on plan assets	(344)	383	–	–
Actuarial (gain) loss on accrued benefit obligation	220	(331)	34	(60)
Cost incurred	55	247	55	(40)
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	184	(565)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(219)	324	(35)	62
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(12)	(11)	(6)	(6)
Increase in valuation allowance	1	17	–	–
Net benefit cost recognized for the period	$ 10	$ 13	$ 14	$ 16
Cash payments				
Contributions – Funded defined benefit plans	$ 61	$ 34	$ –	$ –
– Funded defined contribution plans	3	3	–	–
Benefits paid for unfunded plans	9	7	16	15
Total cash payment	$ 73	$ 44	$ 16	$ 15

(c) Measurement and Valuation

Measurement date is December 31. The measurement date used for the prior fiscal year was November 30. The dates of the actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2006	33%	December 31, 2009	40%
April 1, 2007	5%	April 1, 2010	5%
December 31, 2007	33%	December 31, 2010	33%
December 31, 2008	29%	December 31, 2011	22%

The fair value of assets is used to determine the expected return on assets.

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2009	2008
Equity securities	48%	42%
Debt securities	38%	42%
Real estate	5%	5%
Cash and cash equivalents	9%	11%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

(e) Significant Weighted Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
To determine benefit cost:				
Discount rate	6.6%	5.8%	7.1%	5.7%
Expected long-term rate of return on plan assets	6.7%	6.4%	–	–
Rate of compensation increase	4.1%	4.3%	3.9%	4.2%
To determine accrued benefit obligation:				
Discount rate	6.1%	6.6%	6.3%	7.1%
Rate of compensation increase	3.7%	4.1%	3.9%	3.9%
Health care trend rates:				
Initial health care trend rate			7.0%	7.1%
Ultimate health care trend rate			4.5%	5.0%
Year ultimate trend rate is reached			2024	2012

(f) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2009	2008	2009	2008
Impact on accrued benefit obligation	$ 30	$ 26	$ (25)	$ (22)
Impact on service and interest cost	$ 2	$ 2	$ (2)	$ (2)

20. Accumulated Other Comprehensive Loss

2009	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	$ (606)	$ 64	$ 1	$ (541)	$ 5	$ (546)
Other comprehensive loss	(487)	(72)	–	(559)	(21)	(538)
Income tax	4	11	–	15	(1)	16
	(483)	(61)	–	(544)	(22)	(522)
Balance, end of year	$ (1,089)	$ 3	$ 1	$ (1,085)	$ (17)	$ (1,068)

2008	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	$ (743)	$ 145	$ 1	$ (597)	$ (21)	$ (576)
Other comprehensive income (loss)	138	(112)	–	26	25	1
Income tax	(1)	31	–	30	1	29
	137	(81)	–	56	26	30
Balance, end of year	$ (606)	$ 64	$ 1	$ (541)	$ 5	$ (546)

21. Related Party Transactions

Reinsurance Transactions

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), a subsidiary of GWL&A assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S. term life reinsurance business was retroceded by Canada Life to GWSC. In 2009, for the Summaries of Consolidated Operations, this transaction resulted in a reduction of premium income of $148 ($156 in 2008) policyholder benefits of $104 ($98 in 2008), change in actuarial liabilities of $132 ($33 in 2008) and commissions of $30 ($34 in 2008). This transaction was at market terms and conditions.

21. Related Party Transactions (cont'd)

Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During 2009, the Company provided and received from IGM certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All services were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2009, the Company held $35 ($30 in 2008) of debentures issued by IGM.

During 2009, the Company and segregated funds maintained by the Company purchased residential mortgages of $147 from IGM ($144 in 2008). The Company sold residential mortgages of $2 ($3 in 2008) to segregated funds maintained by the Company and $98 ($66 in 2008) to segregated funds maintained by London Life. Segregated funds maintained by the Company sold $118 of commercial mortgages to London Life. All transactions were at market terms and conditions.

During the year, GWL&A provided certain administrative services to the Company. The expense to the Company for these services was $5 ($5 in 2008).

The Company has 6.74% Debentures due to Lifeco, its parent, which have an outstanding balance of $200 ($200 in 2008). Financing charges of $13 is included in the Summaries of Consolidated Operations ($13 in 2008).

In 2008, the Company issued $2.0 billion of 7.127% debentures to Lifeco. The Company made a corresponding investment of $2.0 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued $1.2 billion of 5.75% debentures to Lifeco in 2003. The Company made a corresponding investment of $1.2 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly the investments and debentures are offset in the consolidated financial statements of the Company.

22. Income Tax

(a) Future income taxes consist of the following taxable temporary differences on:

	2009	2008
Policy liabilities	$ 400	$ 726
Portfolio investments	(541)	(762)
Other	(395)	(176)
Future income taxes payable	$ (536)	$ (212)
Recorded in:		
Other assets	$ 67	$ 92
Other liabilities	(603)	(304)
	$ (536)	$ (212)

(b) The Company's effective income tax rate is derived as follows:

	2009		2008	
Combined basic Canadian federal and provincial tax rate	$ 660	32.0%	$ 816	32.5%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(138)	(6.7)	(135)	(5.4)
Lower effective tax rates on income not subject to tax in Canada	(143)	(6.9)	(165)	(6.6)
Other	(90)	(4.4)	27	1.1
Impact of rate changes on future income taxes	–	–	–	–
Effective income tax rate	$ 289	14.0%	$ 543	21.6%

At December 31, 2009, the Company had tax loss carryforwards, totaling $2,151 ($2,619 in 2008). Of this amount, $2 expire between 2010 and 2029, while $2,149 have no expiry date. The future tax benefit of these loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $526 ($654 in 2008) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

23. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 4 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

	2009				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ –	$ –
Futures – short	8	–	–	–	–
Swaps	1,582	173	12	155	16
Options purchased	265	27	4	26	2
	1,963	200	16	181	18
Foreign exchange contracts					
Forward contracts	156	1	2	3	–
Cross-currency swaps	5,296	492	365	857	69
	5,452	493	367	860	69
Other derivative contracts					
Equity contracts	75	–	5	5	–
Futures – long	12	–	–	–	–
Futures – short	5	–	–	–	–
	92	–	5	5	–
	$ 7,507	$ 693	$ 388	$ 1,046	$ 87

* Maximum credit risk does not include collateral received of $35, however it is reflected in the credit risk equivalent.

	2008				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ –	$ –
Futures – short	49	–	–	–	–
Swaps	2,029	270	13	283	51
Options purchased	308	54	5	59	12
	2,505	324	18	342	63
Foreign exchange contracts					
Forward contracts	140	2	1	3	1
Cross-currency swaps	5,129	212	347	559	110
	5,269	214	348	562	111
Other derivative contracts					
Equity contracts	89	1	5	6	1
Credit default swaps	67	–	–	–	2
	156	1	5	6	3
	$ 7,930	$ 539	$ 371	$ 910	$ 177

* Maximum credit risk does not include a reduction for collateral paid of $25.

23. Derivative Financial Instruments (cont'd)

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2009				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ 108	$ –
Swaps	346	676	560	1,582	160
Options purchased	–	–	265	265	27
	454	676	825	1,955	187
Foreign exchange contracts					
Forward contracts	156	–	–	156	1
Cross-currency swaps	108	987	4,201	5,296	340
	264	987	4,201	5,452	341
Other derivative contracts					
Equity contracts	49	26	–	75	(23)
Futures – long	12	–	–	12	–
Futures – short	5	–	–	5	–
	66	26	–	92	(23)
	784	1,689	5,026	7,499	505
Fair value hedges					
Interest rate contracts					
Futures – short	8	–	–	8	–
Total	$ 792	$ 1,689	$ 5,026	$ 7,507	$ 505

	2008				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ 119	$ –
Futures – short	39	–	–	39	–
Swaps	709	687	633	2,029	234
Options purchased	–	–	308	308	54
	867	687	941	2,495	288
Foreign exchange contracts					
Forward contracts	140	–	–	140	2
Cross-currency swaps	234	898	3,997	5,129	(511)
	374	898	3,997	5,269	(509)
Other derivative contracts					
Equity contracts	61	17	11	89	(18)
Credit default swaps	67	–	–	67	(2)
	128	17	11	156	(20)
	1,369	1,602	4,949	7,920	(241)
Fair value hedges					
Interest rate contracts					
Futures – short	10	–	–	10	–
Total	$ 1,379	$ 1,602	$ 4,949	$ 7,930	$ (241)

Futures contracts included in the above table are exchange traded contracts; all other contracts are over the counter.

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. The Company may use credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

24. Reinsurance Transactions

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRE), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by $12.5 billion in 2008. During 2009, an additional £282 ($477) was added to the amounts on deposit.

During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

25. Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. The provisions for certain Canadian retirement plans in the amounts of $97 after-tax established by the Company and one of its subsidiaries in the third quarter, 2007 have been reduced to $68. Actual results could differ from these estimates.

The trial of the class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of LIG in 1997 by Great-West Life concluded on January 15, 2010. The Court reserved and a decision is expected later in 2010. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

The Company has entered into an agreement to settle a class action relating to the provision of notice of the acquisition of CLFC to certain shareholders of CLFC. The settlement received Court approval on January 27, 2010 and will take a number of months to implement. Based on information presently known, this matter is not expected to have a material adverse effect on the consolidated financial position of the Company.

Legal proceedings have been commenced against a private equity vehicle in which the Company and one of its subsidiaries, Canada Life, have an ownership interest. An affiliate of the Company, Putnam Investments, LLC has agreed to indemnify the Company and its subsidiary, to a specified maximum amount, in the event an unfavourable outcome in these proceedings results in a loss to the Company or its subsidiary. These proceedings are in their early stages, and it is difficult to predict the outcome with certainty. Based on information presently known, it is expected that the amount of the indemnification would be sufficient in the event of an unfavourable outcome and these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

26. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $612 in letters of credit under the facility as at December 31, 2009 (U.S. $622 at December 31, 2008).

In addition, LRG has other bilateral letter of credit facilities totalling U.S. $18 (2008 – U.S. $18). LRG has issued U.S. $6 in letters of credit under these facilities as at December 31, 2009 (U.S. $6 at December 31, 2008).

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2009 ($1 at December 31, 2008), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2010	2011	2012	2013	2014	2015 and thereafter	Total
Future lease payments	$ 69	61	47	36	27	69	$ 309

27. Segmented Information

The major reportable segments of the Company are the participating and shareholder operations. The Company operates through Great-West Life and its wholly-owned subsidiaries LIG and CLFC. Within these segments the major business units are: Individual Insurance and Investment Products, Group Insurance, Europe/Reinsurance, and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and the revenues from these business units are derived principally from life, health and disability insurance, annuity products, and life, property and casualty, accident and health and annuity reinsurance. Business activities and operations that are not associated with the specific business units are attributed to Corporate.

(a) Consolidated Operations

	2009						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	$ 2,572	$ 4,159	$ 5,900	$ 72	$ 12,703	$ 2,382	$ 15,085
Net investment income							
Regular net investment income	907	304	1,949	237	3,397	1,410	4,807
Changes in fair value on held for trading assets	314	77	1,165	57	1,613	1,024	2,637
Total net investment income	1,221	381	3,114	294	5,010	2,434	7,444
Fee and other income	760	142	660	37	1,599	–	1,599
Total income	4,553	4,682	9,674	403	19,312	4,816	24,128
Benefits and expenses:							
Paid or credited to policyholders	3,103	3,312	8,327	194	14,936	4,290	19,226
Other	752	793	691	46	2,282	518	2,800
Amortization of finite life intangible assets	8	7	6	16	37	1	38
Income before income taxes	690	570	650	147	2,057	7	2,064
Income taxes	118	175	42	(29)	306	(17)	289
Net income before non-controlling interests	572	395	608	176	1,751	24	1,775
Non-controlling interests	–	–	–	7	7	–	7
Net Income	572	395	608	169	1,744	24	1,768
Net income – participating policyholder	–	–	–	–	–	24	24
Net income – shareholders	572	395	608	169	1,744	–	1,744
Preferred share dividends	–	–	–	9	9	–	9
Net income – common shareholder	$ 572	$ 395	$ 608	$ 160	$ 1,735	$ –	$ 1,735

27. Segmented Information (cont'd)

	2008						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	$ 2,061	$ 4,053	$ 18,971	$ 83	$ 25,168	$ 2,257	$ 27,425
Net investment income							
Regular net investment income	717	280	2,114	258	3,369	1,433	4,802
Changes in fair value on held for trading assets	(657)	(117)	(1,579)	(120)	(2,473)	(1,583)	(4,056)
Total net investment income	60	163	535	138	896	(150)	746
Fee and other income	841	142	647	55	1,685	–	1,685
Total income	2,962	4,358	20,153	276	27,749	2,107	29,856
Benefits and expenses:							
Paid or credited to policyholders	1,262	3,031	18,545	24	22,862	1,599	24,461
Other	795	771	707	120	2,393	458	2,851
Amortization of finite life intangible assets	6	5	5	16	32	–	32
Income before income taxes	899	551	896	116	2,462	50	2,512
Income taxes	226	160	159	7	552	(9)	543
Net income before non-controlling interests	673	391	737	109	1,910	59	1,969
Non-controlling interests	–	–	–	7	7	–	7
Net Income	673	391	737	102	1,903	59	1,962
Net income – participating policyholder	–	–	–	–	–	59	59
Net income – shareholders	673	391	737	102	1,903	–	1,903
Preferred share dividends	–	–	–	9	9	–	9
Net income – common shareholder	$ 673	$ 391	$ 737	$ 93	$ 1,894	$ –	$ 1,894

(b) Consolidated Total Assets:

	2009			2008		
	Shareholder	Participating account	Total	Shareholder	Participating account	Total
Assets						
Invested assets	**$ 52,292**	**$ 27,608**	**$ 79,900**	$ 52,679	$ 26,221	$ 78,900
Goodwill and intangible assets	**6,808**	**–**	**6,808**	6,790	–	6,790
Other assets	**13,496**	**880**	**14,376**	14,077	695	14,772
Total assets	**$ 72,596**	**$ 28,488**	**$ 101,084**	$ 73,546	$ 26,916	$ 100,462
Segregated funds net assets			**67,805**			59,924
Total general fund and segregated fund assets under administration			**$ 168,889**			$ 160,386

(c) Geographic Distribution of Total Assets and Income:

	2009		2008	
	Income	Assets	Income	Assets
Canada	**$ 13,812**	**$ 54,716**	$ 9,431	$ 51,944
International	**10,316**	**46,368**	20,425	48,518
Total assets	**$ 24,128**	**$ 101,084**	$ 29,856	$ 100,462

AUDITORS' REPORT

To the Policyholders and Shareholders of
The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds – consolidated net assets as at December 31, 2009 and 2008 and the summaries of consolidated operations, the summaries of consolidated comprehensive income, the consolidated statements of surplus, the consolidated statements of cash flows and the segregated funds – consolidated statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2009 and 2008 and the results of its operations, its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 11, 2010

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors of
The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2009 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

A. Jamal

Arshil Jamal
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba
February 11, 2010

PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and is subject to change from time to time. It applies to participating insurance policies.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West Life may distribute a portion of the earnings as declared by the Board of Directors in accordance with this policyholder dividend policy.

Participating insurance policies are eligible for a periodic policyholder dividend. The amount available for distribution from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount available for distribution in any year will vary upwards or downwards depending on the actual and expected experience. The amount available is also influenced by considerations such as: the need to retain earnings as surplus to, among other purposes, ensure financial strength and stability, finance new business growth, provide for transitions during periods of major change and smooth fluctuations in experience; practical considerations and limits; legal requirements; and prevailing industry practices.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Great-West Life follows the contribution principle when setting the policyholder dividend scale. This means the amount available for distribution as policyholder dividends is divided among classes of policyholders over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular class of policies to the extent that the experience for that particular class is different from the assumptions that were used when establishing the guaranteed values for that class.

When applying the contribution principle, attention is paid to ensuring reasonable equity is achieved between classes of policyholders and between generations of policyholders, taking into account practical considerations and limits, legal requirements and prevailing industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to earnings of those blocks.

Termination dividends are not payable under any participating insurance policies issued by Great-West Life.

The policyholder dividends are credited according to the terms of each policy.

Prior to the declaration of policyholder dividends by the Board, the actuary of the Company will confirm that: the proposed policyholder dividends are in accordance with this policyholder dividend policy and in compliance with applicable legislative and regulatory requirements; and applicable professional practice standards have been followed.

As permitted by the Insurance Companies Act, Great-West Life may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year.

Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by The Great-West Life Assurance Company Board of Directors

October 28, 2004

Effective December 31, 2004

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not a Canadian generally accepted accounting principles (GAAP) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of Canadian GAAP net income. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Life's sources of earnings are shown below for 2009 and 2008.

(in $ millions)	Shareholder net income				
For year to date at December 31, 2009	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total
Expected profit on in-force business	$ 488	$ 453	$ 462	$ (5)	$ 1,398
Impact of new business	0	(15)	10	0	(5)
Experience gains and losses	30	143	(139)	68	102
Management actions and changes in assumptions	52	109	156	6	323
Other	0	0	0	0	0
Earnings on surplus	0	0	161	78	239
Net income before tax	**570**	**690**	**650**	**147**	**2,057**
Taxes	(175)	(118)	(42)	29	(306)
Net income before non-controlling interests	**395**	**572**	**608**	**176**	**1,751**
Non-controlling interests	0	0	0	(7)	(7)
Net income – shareholders	395	572	608	169	1,744
Preferred share dividends	0	0	0	(9)	(9)
Net income – common shareholder before adjustments	**395**	**572**	**608**	**160**	**1,735**
Adjustments after tax	0	0	0	0	0
Net income – common shareholders	**$ 395**	**$ 572**	**$ 608**	**$ 160**	**$ 1,735**

(in $ millions)	Shareholder net income				
For year to date at December 31, 2008	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total
Expected profit on in-force business	$ 503	$ 579	$ 537	$ 22	$ 1,641
Impact of new business	0	(8)	18	0	10
Experience gains and losses	(8)	164	447	3	606
Management actions and changes in assumptions	49	164	(239)	16	(10)
Other	0	0	0	0	0
Earnings on surplus	7	0	133	75	215
Net income before tax	**551**	**899**	**896**	**116**	**2,462**
Taxes	(160)	(226)	(159)	(7)	(552)
Net income before non-controlling interests	**391**	**673**	**737**	**109**	**1,910**
Non-controlling interests	0	0	0	(7)	(7)
Net income – shareholders	391	673	737	102	1,903
Preferred share dividends	0	0	0	(9)	(9)
Net income – common shareholder before adjustments	**391**	**673**	**737**	**93**	**1,894**
Adjustments after tax	0	0	0	0	0
Net income – common shareholders	**$ 391**	**$ 673**	**$ 737**	**$ 93**	**$ 1,894**

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 68% of pre-tax earnings in 2009. The expected profit on in-force business of $1,398 in 2009 was $243 lower than the 2008 level. A significant contributor to the decrease in expected profits year over year was the impact of equity markets.

New business issued in 2009 led to losses of $(5) at issue compared to gains of $10 in 2008, largely due to reduced profits on new business in Canada and Reinsurance.

Experience gains in 2009 were primarily due to favourable mortality and morbidity in Canada and Europe and favourable investment experience in Canada. Experience gains in 2008 were primarily due to favourable mortality, morbidity, and investment experience in Europe and Canada Individual Insurance & Investment Products. Experience gains of $102 in 2009 were $504 lower than in 2008 primarily due to unfavourable impact of credit events in Europe.

In 2009 management actions and changes in assumptions contributed $323 to pre-tax earnings, including $20 due to the shareholder portion of valuation assumption changes in the participating lines and $317 due to valuation assumption changes and management actions for policy liabilities in the other lines. The most significant contributors to valuation assumption changes and management actions for policy liabilities in these other lines were $263 due to improved Individual Life mortality, $220 due to reduced provisions for asset liability matching and $129 due to modelling refinement in individual life and annuities, $(164) due to strengthening of asset default and expense, $(52) due to modelling refinements in reinsurance, $(52) due to the future tax impact of a change in asset mix targets for long-tail liabilities and $(30) due to increased provisions for policyholder behaviour.

In 2008 management actions and changes in assumptions contributed $(10) to pre-tax earnings, including $22 due to a reduction in non-actuarial policy liabilities (mainly Canada Group), $9 related to the termination of an aggregate reinsurance agreement, $7 related to the sale of US Healthcare, and $(59) due to valuation assumption changes and management actions for actuarial liabilities. The most significant contributors to valuation assumption changes and management actions for actuarial liabilities were $(203) due to strengthened life annuitant mortality in Europe, $(108) due to strengthened provisions for asset default, $(123) due to strengthened provisions for asset liability matching, $158 due to improved morbidity, $105 due to Canadian Individual life mortality, and $98 due to two annuitant mortality risk transfer agreements.

Earnings on surplus increased by $24 in 2009 compared to 2008.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY*

Name	Principal Office Address	Carrying Value ($ millions)	Voting Share Ownership
GWL Investment Management Ltd.	Winnipeg, Manitoba	2	100.0%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	–	100.0%
London Insurance Group Inc.	London, Ontario	3755	100.0%
Canada Life Financial Corporation	Toronto, Ontario	8,876	100.0%

* The table above depicts the material and certain other subsidiaries of the Company as at December 31, 2009.

FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)	2009	2008	2007	2006	2005
At December 31					
Total assets under administration	$ 182,715	$ 173,184	$ 179,756	$ 181,184	$ 149,407
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	$ 15,085	$ 27,425	$ 19,221	$ 15,288	$ 13,154
Self-funded premium equivalents (ASO contracts)	2,499	2,410	2,233	2,145	1,955
Segregated funds deposits:					
Individual products	5,765	6,932	8,544	7,959	6,046
Group products	4,231	3,321	3,311	3,008	2,682
Proprietary mutual funds deposits	565	708	835	629	440
Total premiums and deposits	$ 28,145	$ 40,796	$ 34,144	$ 29,029	$ 24,277
Condensed Summary of Operations					
Income					
Premium income	$ 15,085	$ 27,425	$ 19,221	$ 15,288	$ 13,154
Net investment income					
Regular net investment income	4,807	4,802	4,321	4,534	3,991
Changes in fair value on held for trading assets	2,637	(4,056)	(1,015)	–	–
Total net investment income	7,444	746	3,306	4,534	3,991
Fee and other income	1,599	1,685	1,705	1,508	1,257
Total income	24,128	29,856	24,232	21,330	18,402
Benefits and expenses					
Paid or credited to policyholders	19,226	24,461	18,982	16,456	13,989
Other	2,800	2,851	2,999	2,762	2,625
Amortization of finite life intangible assets	38	32	18	18	18
Restructuring costs	–	–	–	–	22
Income before income taxes	2,064	2,512	2,233	2,094	1,748
Income taxes	289	543	450	385	323
Net income before non-controlling interests	1,775	1,969	1,783	1,709	1,425
Non-controlling interests	7	7	7	7	7
Net income	1,768	1,962	1,776	1,702	1,418
Net income – participating account	24	59	129	132	94
Net income – shareholders	1,744	1,903	1,647	1,570	1,324
Preferred share dividends	9	9	11	11	11
Net income – common shareholder	$ 1,735	$ 1,894	$ 1,636	$ 1,559	$ 1,313
Earnings per common share	$ 830.46	$ 906.69	$ 783.48	$ 746.64	$ 632.75
Book value per common share	$5,320.00	$ 5,350.00	$ 4,889.00	$ 4,827.00	$ 4,173.00
Dividends to common shareholder – per share	$ 613.78	$ 465.83	$ 412.26	$ 237.64	$ 290.00

DIRECTORS AND OFFICERS

As of December 31, 2009

BOARD OF DIRECTORS

Raymond L. McFeetors [3,4,5,6]
Chairman of the Board of the Company
Vice-Chairman, Power Financial Corporation

George S. Bain [1]
Corporate Director

Marcel R. Coutu [3,4,5]
President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q. [3,4,5,6]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [3,4,5,6]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

H. David Graves [3,4,5]
Chairman, President and
Chief Executive Officer, IMRIS Inc.

Michael L. Hepher [1,5]
Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1,2]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

The Right Honourable Donald F. Mazankowski, P.C., O.C., A.O.E. [3,4,6]
Senior Advisor to
Gowling Lafleur Henderson LLP

D. Allen Loney, FIA, FCIA [3,4]
President and Chief Executive Officer
of the Company,
Great-West Lifeco Inc.,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2,3,4,5,6]
Corporate Director

R. Jeffrey Orr [3,4,5,6]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA [1]
Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau, Ph.D. [3,4]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., FCA [1]
Corporate Director

Philip K. Ryan [1,3,4]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Emőke J.E. Szathmáry, C.M., O.M., Ph.D. [2,3]
President Emeritus,
University of Manitoba

Brian E. Walsh [5]
Managing Partner,
Saguenay Capital, LLC

1 member of the Audit Committee
2 member of the Conduct Review Committee
3 member of the Executive Committee
4 member of the Investment Committee
5 member of the Compensation Committee
6 member of the Governance and Nominating Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

Paul A. Mahon
President and Chief Operating Officer,
Canada

Andrew D. Brands
Senior Vice-President and
General Counsel

Elwood C. Haas
Senior Vice-President,
Corporate Resources

Arshil Jamal
Executive Vice-President and
Chief Actuary

Helen R. Kasdorf
Vice-President and
Chief Internal Auditor

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Peter G. Munro
Executive Vice-President and
Chief Investment Officer

Ronald D. Saull
Executive Vice-President,
Chief Information Officer

Laurie A. Speers
Vice-President and
Corporate Secretary

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

Stock Exchange

Stock Exchange Listings Symbol: GWL.PR.O

The Preferred Shares Series O are listed on the Toronto Stock Exchange.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Life is **Computershare Investor Services Inc.**

In Canada, the Non-Cumulative First Preferred Shares, Series O are transferable at the following locations:

9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1

6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8

Dividends

The Preferred Shares Series O – Dividend record dates are usually between the 1st and 4th of January, April, July and October. Dividends are usually paid the last day of January, April, July and October.

Financial Information

For financial information about Great-West Life, please contact the Chief Financial Officer at 204-946-7341.

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit: **www.greatwestlife.com**.

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THE
Great-West Life
ASSURANCE COMPANY

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™

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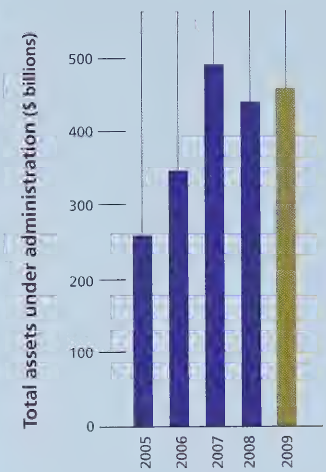
sustained strong performance

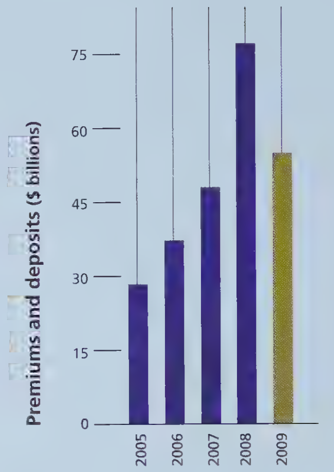
GREAT-WEST LIFECO INC.

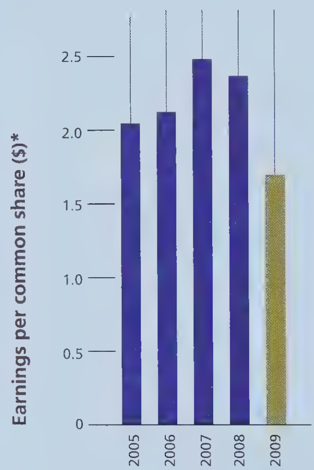
Annual Report 2009

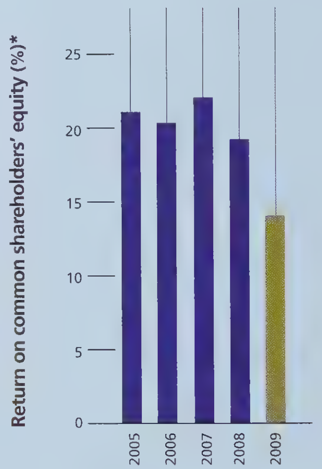
Table of Contents

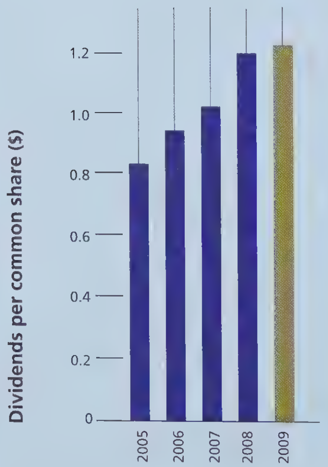
Key Performance Measures

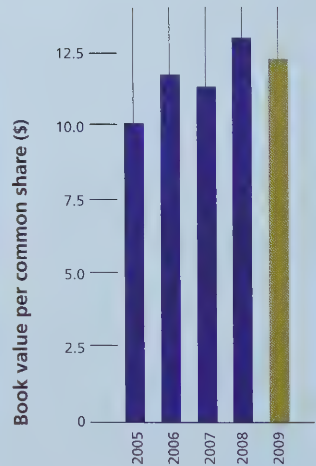












**Information is presented on an adjusted, non-GAAP basis*

Directors' Report to Shareholders

Great-West Lifeco's strong performance continued in 2009, delivering superior results compared to our competitors, despite the very difficult financial market conditions that persisted throughout 2009. Lifeco's capital base and liquidity position remain strong, and the Corporation is well positioned for growth.

Earnings attributable to common shareholders were $1.6 billion, or $1.722 per share. In 2008, adjusted earnings attributable to common shareholders were $2.1 billion, or $2.303 per share.

Lifeco's return on equity (ROE) of 13.8% for the twelve months ended December 31, 2009 continued to rank among the strongest in the financial services sector.

The quarterly dividend on Lifeco's common shares was not changed in 2009. Dividends paid for the twelve months ended December 31, 2009 were up 2.5% over the prior year.

Other measures of Lifeco's performance in 2009 include:

- Premiums and deposits were $56.7 billion, compared to $76.5 billion in 2008.
- General fund assets declined slightly to $128.4 billion.
- Total assets under administration at December 31, 2009 were approximately $459 billion, compared to approximately $442 billion a year ago.
- Common shareholder net income was negatively impacted by $160 million due to the unstable financial market conditions in 2009, which resulted in reduced fee income and higher charges for future credit losses and increases in investment related actuarial liabilities.

Our financial strength

Our companies continue to benefit from prudent and conservative investment policies and practices with respect to the management of their consolidated assets. In addition, our conservative product underwriting standards and disciplined culture in introducing new products have proven beneficial for Lifeco and its companies over the long term. In Canada, we maintained our segregated fund guarantees in a prudent and disciplined manner, thereby limiting our risk exposure. As a result of these disciplines, our balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 204% on a consolidated basis at December 31, 2009. This measure of capital strength remains at the upper end of our target operating range.

In 2009, all five rating agencies which rate Great-West Lifeco and its subsidiaries affirmed the credit and financial strength ratings for the Corporation, with a stable outlook. These rating affirmations put Lifeco in exclusive company, and represent a very positive statement regarding the strength of the Corporation and its subsidiaries, given the economic environment over the past year.

We have a high quality bond portfolio, with 98% rated investment grade at December 31, 2009.

The Corporation's capital position remains very strong. In the fourth quarter of 2009, Lifeco issued $170 million of perpetual preferred share capital and $344 million principal amount of senior debentures. At December 31, 2009, Lifeco held cash of approximately $1 billion as a result of capital transactions in 2008 and 2009. As this cash is held at the holding company, it is not reflected in the MCCSR ratios of our operating subsidiaries. The net capital raised by Lifeco in 2008 and 2009 augments our capital and liquidity position, and enhances the Corporation's capability to take advantage of market opportunities.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

Lifeco's success is driven by its operating subsidiaries across its three main operating regions: in Canada through Great-West Life, London Life and Canada Life; in the United States through Great-West Life & Annuity and Putnam; and in Europe through Canada Life.

Canada

In Canada, Lifeco's companies maintained strong market positions in their individual and group businesses. We are well positioned for organic growth through our continued focus on product and service enhancements and expense management.

Despite challenging market conditions, we saw strong, sustained performance. Our individual life insurance business grew significantly faster than the market; our group retirement services business recorded strong growth; our group insurance business continued to experience strong persistency; and our individual segregated fund and mutual fund businesses maintained positive net deposits.

Lifeco's operating companies in Canada together are the leading provider of individual life insurance, including participating life insurance. We continue to focus on excellence in managing and growing our participating business. In addition to participating insurance, term and universal life insurance are important elements of the value proposition we offer. Our range of life insurance products gives advisors choice and flexibility in meeting clients' individual diverse needs. Within our group of companies participating products have been offered as far back as 1847 and policyholder dividends have been paid every year since.

The Canadian operations continued to focus on distribution support and development in 2009, both in the exclusive and independent distribution channels. The relationships we have with advisors support the very strong persistency of our business, provide a strategic advantage for us and contribute to strong market share across our multiple lines of business.

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada. Our product offering includes group life, healthcare, dentalcare, wellness and group disability, critical illness and international benefits plans, plus convenient online services.

We also offer group retirement and savings plans that are tailored to the unique needs of businesses and organizations. Group capital accumulation plans are a core business for Great-West Life. In 2009 Great-West Life completed the transfer of assets from the Fidelity Investments Canada group retirement services business, resulting in the addition of over $1.4 billion in assets under administration.

Directors’ Report to Shareholders (cont’d)

United States

Despite the continued volatility in the global credit and equity markets, our Financial Services businesses continued to grow, with strong sales in the Retirement Services and Individual Markets businesses. Both the public/non-profit and 401(k) sectors of Retirement Services experienced strong sales, as did the Bank segment of the Individual Markets business.

This sales growth, combined with strong investment earnings, favourable mortality and sound expense management, resulted in solid earnings. With a strong balance sheet and regulatory capital position, Great-West Life & Annuity is well positioned to capitalize on acquisition opportunities.

Putnam’s assets under management increased to US$115 billion at the end of December 2009 from US$106 billion at the end of December 2008, reflecting improved market conditions, a reduction in net redemptions, the successful introduction of new products, and improved investment performance.

In 2009, Putnam focused on strengthening investment performance, introducing innovation, and bolstering the firm’s presence in the retirement market. The year saw an improvement in investment performance across nearly all asset categories; the roll-out of 14 innovative investment solutions, including the industry’s first suite of Absolute Return Funds; a new partnership with FASCore, a Great-West Life & Annuity company, to offer a new defined-contribution platform; broad-based, customer-friendly changes to the management fees on Putnam’s retail mutual funds; an overall strengthening of talent in key roles across the organization; and the revitalization of the firm’s brand.

Putnam recorded a gain of US$33 million (net of taxes and minority interest) in the first quarter of 2009 related to the sale of its equity investment in Union PanAgora Asset Management, a German investment management company.

Europe

In Europe, the Corporation has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany.

In 2009, the Corporation faced challenging credit markets as well as a general loss of consumer confidence in investments due to a sharp decline in equity markets in late 2008 and early 2009. Although conditions generally improved in 2009, these pressures affected sales volumes. As well, earnings were impacted by the required strengthening of reserves for future asset default risk.

As a result of our focus on credit and expense controls in 2008, our European operations were in a strong position coming into 2009, and this focus was maintained throughout the year. For example, we reduced sales expenses by finding new ways to support our distribution associates.

We were also able to take advantage of depressed real estate prices in the U.K., and wider investment spreads, to enhance the yields on our invested assets.

Lifeco participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets. In Reinsurance, 2009 was a year of growth, as economic and capital markets pressures created demand for reinsurance solutions. The Corporation continued to leverage its financial strength, disciplined risk-management practices and excellent client relationships to achieve strong business results.

Board of Directors

At Great-West Lifeco’s 2009 Annual Meeting of Shareholders it was announced that Orest Dackow and Kevin Kavanagh would retire from the Corporation’s Board of Directors after serving for many years. Orest Dackow had been a Director of the Corporation since 1992 and served as a Director of Great-West Life & Annuity Insurance Company since 1991. He was also President and Chief Executive Officer of the Corporation from 1992 to 2000. Kevin Kavanagh had been a Director of the Corporation since its inception in 1986 and served as a Director of Great-West Life & Annuity Insurance Company since 1986. He also served as President and Chief Executive Officer from 1986 to 1992. Also retiring from the Corporation’s Board of Directors were: Guy St-Germain *(served from 1991)*; Daniel Johnson *(served from 1999)*; Murray Taylor *(served from 2006)*; Peter Harder *(served from 2007)*; and Marc Bibeau *(served from 2008)*.

Through their participation on the Board and various Board Committees, each of these Directors made a valuable contribution to the affairs of the Corporation, and we thank them sincerely for their years of service.

At the Annual Meeting four new individuals were elected to the Board of Directors, namely: George Bain, formerly Principal of London Business School and President and Vice-Chancellor of Queen’s University, Belfast; Henri-Paul Rousseau, Vice-Chair of Power Corporation; Raymond Royer, formerly President and Chief Executive Officer of Domtar Inc.; and Brian Walsh, founder and Managing Partner of Saguenay Capital LLC.

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and Chief Executive Officer

William L. Acton
President and CEO
Canada Life Capital Corporation
Europe

Mitchell T. G. Graye
President and CEO
Great-West Life & Annuity

Paul A. Mahon
President and COO
Canada

Robert L. Reynolds
President and CEO
Putnam Investments

Corporate Profile

Great-West Lifeco Inc. (TSX:GWO) is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses. The Corporation has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company and Putnam Investments, LLC. Lifeco and its companies have approximately $459 billion in assets under administration, and are members of the Power Financial Corporation group of companies.

Assets as of December 31, 2009

The chart above depicts the corporate relationships among Lifeco and its material and certain other subsidiaries as at December 31, 2009. Lifeco beneficially owns, or exercises control or direction over, 100% of the voting securities of each such subsidiary.

Business Overview

Canada

Major Brands: Great-West Life; London Life; Canada Life; Freedom 55 Financial; Quadrus Investment Services Ltd.

Products and Services:

- Life, disability and critical illness insurance for individuals, business owners and families
- Retirement savings and income plans for individuals and groups, including segregated funds, as well as proprietary and third-party mutual funds through Quadrus Investment Services Ltd.
- Fund management, investment and advisory services through GWL Realty Advisors Inc., GWL Investment Management Ltd., London Capital Management Ltd. and Laketon Investment Management Ltd.
- Comprehensive benefit solutions for small, medium and large employer groups, including life, short-term and long-term disability, critical illness, hospital, prescription drug, dental, extended healthcare and out-of-country medical coverage. Services include online plan member and plan administrator services, attendance support services, disability management and employee rehabilitation services as well as absence services, employee assistance plans and *Best Doctors*™ medical referral services
- Creditor insurance, including life, disability, job loss and critical illness coverage
- Life, health, accident and critical illness insurance for members of affinity groups

United States

Major Brands: Great-West Life & Annuity; First Great-West Life & Annuity; Great-West Retirement Services; FASCore; Advised Assets Group; Maxim Series Funds

Products and Services:

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual term and single premium whole life insurance, and individual annuity products
- Business-owned life insurance and executive benefits products

Major Brand: Putnam

Products and Services:

- Global asset management in mutual funds, institutional portfolios; 401(k)s, IRAs, and other retirement plans; variable annuities; and alternative investments
- Strategies include traditional long-only equity and fixed income, global asset allocation, and absolute return

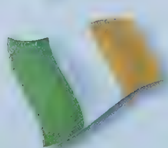
Major Brand: PanAgora Asset Management

Products and Services:

- Active portfolio management and research capabilities utilizing quantitative investment techniques. Offers a broad range of strategies spanning regions, risk levels and asset classes, including equity, fixed income, currency, global macro, multi-asset and alternative investment approaches

Europe






Major Brand: Canada Life

Products and Services:

Protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany:

- Individual life, disability and critical illness insurance
- Group life, income protection and critical illness insurance
- Pensions, savings, investments and payout annuities
- Fund Management through Setanta Asset Managers and Canada Life Asset Management Ltd.

Major Brands: Canada Life Reinsurance; London Reinsurance Group

Products and Services:

Reinsurance and retrocession business primarily in the United States and European markets:

- Life – yearly renewable term, co-insurance and modified co-insurance
- Property and casualty – catastrophe retrocession
- Annuity – fixed and payout

Distribution Channels	Market Position
• Great-West financial security advisors • Freedom 55 Financial™ and Wealth & Estate Planning Group financial security advisors • Independent advisors associated with managing general agencies • National accounts, including Investors Group • Great-West group insurance and retirement sales and service staff in offices across Canada • Independent advisors, brokers and benefit consultants	• Serves the financial security needs of more than 12 million Canadians • 24% market share of individual life insurance measured by premium • 31% market share of individual living benefits inforce premium* **as at September 30, 2009* • 26.6% market share of individual segregated funds • 22.3% market share for group insurance • 21% market share of group capital accumulation plans, serving 1.2 million member accounts* **as at June 30, 2009, Benefits Canada 2009 CAP report data* • Leading market share for creditor insurance revenue premium
• Retirement services products distributed through brokers, consultants, advisors and third-party administrators to plan sponsors • FASCore record-keeping and administrative services distributed through institutional clients • Individual life and annuity products distributed through financial institutions • Business-owned life insurance and executive benefits products distributed through specialized consultants and through Great-West Retirement Services	• Fourth largest defined contribution record-keeper in the country, providing services for 4.2 million participant accounts • Significant market share in state and government deferred compensation plans • 30% market share in business-owned life insurance purchased by financial institutions
• Supports retail investors, financial planners and financial institutions • Services institutional clients and consultants worldwide through dedicated account management teams, strategic alliances and intermediary relationships	• Approximately 6 million shareholders and retirement plan participants and 135 institutional mandates • More than 150,000 advisors distribute Putnam products • Provides services to over 450 defined contribution plans
• Institutional investors • Sub-advisory	• Serves over 100 institutional investors, including many of the world's top 300 plans
U.K. and Isle of Man • Independent financial advisors • Employee benefit consultants **Ireland** • Independent brokers and direct sales force **Germany** • Independent advisors	**U.K. and Isle of Man** • Among top 20 life insurance companies • 33% share of group life market • 20% share of group income protection market • 9% share of offshore single premium investment product market • Among top four insurers in payout annuities, with 8% market share **Ireland** • Among top six insurers by new business market share • 5% of Irish life assurance market **Germany** • Among the top five in the unit-linked pensions market
Reinsurance • Independent reinsurance brokers • Direct placements	**Reinsurance** • Among top ten life reinsurers in the U.S. by assumed business • Niche positions in property and casualty and annuity business

The Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2009 compared with the same periods in 2008 and the three months ended September 30, 2009. The MD&A provides an overall discussion, followed by analysis of the performance of its three major reportable segments: Canada, United States and Europe.

BUSINESS OF LIFECO

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), and Putnam Investments, LLC (Putnam).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC), respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In the U.S., GWL&A is a leader in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of financial products and services marketed through brokers, consultants and group representatives, and through other financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Reinsurance Group Inc. (LRG) and their subsidiaries.

In Asia, Putnam has a 10% interest in Nissay Asset Management (NAM), a partnership with Nippon Life Insurance Company. Putnam predominantly acts as a sub-advisor for certain retail mutual funds distributed by NAM and also manages pension fund assets for NAM clients.

Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, GWL&A, Putnam and their subsidiaries. Lifeco is not restricted to investing in the shares of Great-West Life, GWL&A, Putnam and their subsidiaries and may make other investments in the future.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Risk Management and Control Practices", and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "earnings before restructuring charges", "adjusted net income", "adjusted net income from continuing operations", "net income – adjusted", "earnings before adjustments", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

CONSOLIDATED OPERATING RESULTS

Selected Consolidated Financial Information

(in $ millions except per share amounts)	For the three months ended Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	For the twelve months ended Dec. 31 2009	Dec. 31 2008
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	$ 4,324	$ 4,336	$ 4,782	$ 18,033	$ 30,007
Self-funded premium equivalents (ASO contracts)	632	610	615	2,499	2,410
Segregated funds deposits:					
Individual products	2,036	1,236	2,054	6,229	7,825
Group products	1,626	2,325	1,399	8,470	5,524
Proprietary mutual funds and institutional deposits (1)	6,042	5,045	6,484	21,507	30,693
Total premiums and deposits	14,660	13,552	15,334	56,738	76,459
Fee and other income	765	728	743	2,839	3,124
Paid or credited to policyholders	4,283	8,687	4,812	23,809	26,774
Net income – common shareholders (4)					
Continuing operations – adjusted (3)	443	445	525	1,627	2,018
Discontinued operations – adjusted (2)	–	–	–	–	43
Net income – adjusted (3)	443	445	525	1,627	2,061
Adjustments after-tax (3)	–	–	(1,432)	–	(665)
Net income	443	445	(907)	1,627	1,396
Per common share					
Basic earnings – adjusted (3)	$ 0.468	$ 0.471	$ 0.586	$ 1.722	$ 2.303
Adjustments after-tax (3)	–	–	(1.597)	–	(0.743)
Basic earnings	0.468	0.471	(1.011)	1.722	1.560
Dividends paid	0.3075	0.3075	0.3075	1.230	1.200
Book value	12.17	12.21	12.61		
Return on common shareholders' equity					
Net income – adjusted (3)	13.8%	13.7%	19.0%		
Net income	13.8%	2.4%	12.7%		
Total assets	$ 128,369	$ 129,813	$ 130,074		
Segregated funds net assets	87,495	86,640	77,748		
Proprietary mutual funds and institutional net assets (5)	123,504	124,272	131,122		
Total assets under management	339,368	340,725	338,944		
Other assets under administration (6)	119,207	114,145	103,015		
Total assets under administration	$ 458,575	$ 454,870	$ 441,959		
Share capital and surplus	$ 13,003	$ 12,861	$ 13,228		

(1) Includes Putnam Investments, LLC mutual funds and institutional deposits, excluding Prime Money Market Fund net deposits.

(2) Represents the operating results of GWL&A's health care business, which was sold effective April 1, 2008. Does not include the gain on sale of the health care business.

(3) Net income, basic earnings per common share and return on common shareholders' equity are presented on an adjusted basis, as a non-GAAP financial measure of earnings performance, and reflect the following items in 2008:

		Net income		Per common share In quarter	Year-to-date	Refer to Annual Financial Statement Notes:
Q1:	Gain on termination of reinsurance agreement	$ 176		$ –	$ 0.197	Note 15
	Reserve strengthening in GWL&A	(58)	$ 118	–	(0.065)	Note 2
Q2:	Gain on sale of GWL&A's health care business	649	649	–	0.725	Note 2
Q4:	Intangible & goodwill impairment	(1,353)		(1.508)	(1.511)	Note 8
	Valuation allowance, income tax	(34)		(0.038)	(0.038)	Note 23
	Restructuring costs	(45)	(1,432)	(0.051)	(0.051)	Note 3
			$ (665)	$ (1.597)	$ (0.743)	

Return on common shareholder's equity is restated excluding non-recurring items from prior periods.

(4) Net income for year ended December 31, 2008 includes asset impairment charges of $100 million after-tax and costs of $19 million associated with the transfer of Putnam's Prime Money Market Fund to Federated Investors, Inc.

(5) Excludes Putnam Prime Money Market Fund.

(6) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate with asset levels.

Reinsurance Transaction

Standard Life Transaction

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRe), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities (the Standard Life transaction). The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding issuers and policyholders liabilities by approximately $12.5 billion.

Economic and Market Conditions

In late 2008, as a result of credit and liquidity concerns, many financial institutions experienced financial difficulty. In addition, world economies fell into a sharp and deep recession. A volatile period of financial crisis in capital markets ensued, characterized by the disruption in the normal functioning of credit markets around the world, a flight to reserve currencies and the largest decline in global equity markets in many generations. Governments unveiled unprecedented fiscal stimulus packages and central banks deeply cut interest rates. Central banks also took steps to restore liquidity to the financial system. The crisis continued through to the second quarter of 2009 when economic fundamentals showed early signs of recovery. In the latter half of 2009, global capital markets improved and volatility moderated compared to the prior year due to increasing signs of economic stabilization. Credit spreads have narrowed as the pricing and capacity of debt markets have improved in 2009. While conditions have stabilized, the timing and shape of recovery of the various economies in which the Company operates and the effect on capital markets remains uncertain. How governments pull back on fiscal stimulus and when central banks move to raise interest rates will have an important impact on future economic conditions.

Period ended	Year ended 2009	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Year ended 2008	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008
S&P TSX Index										
Close	11,746	11,746	11,395	10,375	8,720	8,988	8,988	11,753	14,467	13,350
Average	10,165	11,428	10,780	9,882	8,547	12,486	9,108	13,150	14,400	13,269
S&P 500 Index										
Close	1,115	1,115	1,057	919	798	903	903	1,166	1,280	1,323
Average	948	1,089	996	893	808	1,220	912	1,252	1,372	1,351
FTSE 100 Index										
Close	5,413	5,413	5,134	4,249	3,926	4,434	4,434	4,902	5,626	5,702
Average	4,568	5,236	4,715	4,264	4,034	5,363	4,260	5,354	5,983	5,881

Equity markets experienced a tumultuous second half of 2008 in which the S&P TSX Index fell 38%, the S&P 500 Index fell 30% and the FTSE 100 Index fell 21%. In the latter half of 2009, equity markets in general recovered some of the ground lost up to the end of the first quarter of 2009. The S&P TSX Index increased 3% in the fourth quarter which has resulted in an increase of 31% since the beginning of the year. Also, in the quarter the S&P 500 Index and the FTSE 100 Index each increased 5%, which has resulted in an increase of 23% and 22% respectively since the beginning of the year.

The improvement in the equity markets positively impacted results in the fourth quarter of 2009 as the average index level increased compared to 2008. The S&P TSX Index increased by 25% compared to the same period of 2008. Similarly the average index levels for the S&P 500 Index and the FTSE 100 Index were up 19% and 23% respectively from 2008 fourth quarter levels. Average index levels for the full year negatively impacted results for the year-to-date period as the decline in 2008 was greater than the recovery in 2009. Comparing the year-to-date periods for 2009 and 2008, the average index level for the S&P TSX for 2009 was down 19% compared to 2008 and the S&P 500 and the FTSE 100 were down 22% and 15% respectively.

Interest Rates

As at	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007
Canada									
10 year government benchmark	3.613%	3.314%	3.364%	2.782%	2.684%	3.757%	3.734%	3.440%	3.990%
Credit spread (1)	1.712%	1.926%	2.431%	3.393%	3.554%	2.113%	1.701%	1.574%	1.229%
United States									
10 year government benchmark	3.839%	3.307%	3.535%	2.665%	2.214%	3.825%	3.971%	3.411%	4.025%
Credit spread (1)	1.611%	1.883%	2.715%	3.755%	4.106%	2.635%	2.019%	2.299%	1.755%
United Kingdom									
10 year government benchmark	4.015%	3.592%	3.690%	3.166%	3.020%	4.449%	5.130%	4.480%	4.508%
Credit spread (1)	1.312%	1.405%	1.849%	2.399%	3.149%	1.855%	1.577%	1.904%	1.303%

(1) Credit spread over 10 year government benchmark yield for 10 year bonds of A rated corporate issuers.
Source: Bloomberg FMCI Indices

As economic conditions stabilized over the course of 2009, government yields have risen and credit spreads have narrowed in response. In the fourth quarter of 2009, an increase in government yields has outstripped the narrowing of credit spreads, resulting in a decrease in the fair value of bonds in the quarter.

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound, and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

Period ended	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008
United States dollar								
Balance sheet	$1.05	$1.07	$1.16	$1.26	$1.22	$1.06	$1.02	$1.03
Income and expenses	$1.06	$1.10	$1.17	$1.25	$1.21	$1.04	$1.01	$1.00
British pound								
Balance sheet	$1.69	$1.72	$1.91	$1.80	$1.79	$1.89	$2.03	$2.04
Income and expenses	$1.73	$1.80	$1.81	$1.79	$1.90	$1.97	$1.99	$1.99
Euro								
Balance sheet	$1.50	$1.57	$1.63	$1.67	$1.70	$1.49	$1.60	$1.62
Income and expenses	$1.56	$1.57	$1.59	$1.62	$1.60	$1.56	$1.58	$1.50

During 2008, the Canadian dollar weakened against the US dollar and the euro but strengthened against the British pound. In 2009 the Canadian dollar has strengthened against all three currencies. The impact on Lifeco's net income as a result of currency movement was positive in the United States segment ($20 million), but negative in the Europe segment ($24 million).

Impact on Lifeco Operating Results and Financial Condition

Equity Markets Impact

Equity markets impact on common shareholders' net income (after-tax)

For the periods ended December 31, 2009 compared to the periods ended December 31, 2008	For the three months ended: (Reduction)/ increase in fee income	For the three months ended: (Increase)/ decrease in actuarial liabilities	For the three months ended: Total	For the twelve months ended: (Reduction)/ increase in fee income	For the twelve months ended: (Increase)/ decrease in actuarial liabilities	For the twelve months ended: Total
Canada						
IIIP	$ 11	$ 9	$ 20	$ (43)	$ 6	$ (37)
Group Insurance	–	–	–	–	–	–
Sub-total	11	9	20	(43)	6	(37)
United States						
Financial Services	4	1	5	(23)	4	(19)
Asset Management	10	–	10	(74)	–	(74)
Sub-total	14	1	15	(97)	4	(93)
Europe						
Insurance & Annuities	4	10	14	(4)	(1)	(5)
Reinsurance	1	7	8	(3)	(1)	(4)
Sub-total	5	17	22	(7)	(2)	(9)
Total	**$ 30**	**$ 27**	**$ 57**	**$ (147)**	**$ 8**	**$ (139)**
Per common share			**$ 0.06**			**$ (0.15)**

In connection with its wealth management businesses, Lifeco derives fee income from the provision of investment management and other services. The asset base upon which these fees are derived declines as equity markets decline, which results in lower fee income. Additionally, as described more fully below, some of the wealth management products offered by the Company provide for the guarantee of death, maturity, or income benefits to the policyholder. A decline in equity markets may result in the Company having to set aside capital and reserves in order to provide for the potential for future payment of guaranteed amounts.

In the fourth quarter of 2009 average equity market levels were higher than in 2008 for the first time in 2009. The impact of higher equity market levels in the fourth quarter of 2009 on fee income and actuarial liabilities positively impacted net income attributable to common shareholders by $57 million or $0.06 per common share compared to the fourth quarter of 2008. For the full year, the impact of lower equity market levels on fee income and actuarial liabilities negatively impacted net income attributable to common shareholders by $139 million, or $0.15 per common share compared to 2008.

Guarantees Associated with Investment Products

The Company offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds to which policyholders have directed deposits made under their policies.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life, and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation or maturity benefits (GMAB). These products are required to have minimum guarantees of 75% on death and 75% on maturity. The policyholder can choose to increase the level of guarantee up to 100%. The increased guarantee requires the policyholder to pay an additional premium for the enhanced guarantee ("rider"). On October 5, 2009, Great-West Life, London Life and Canada Life launched new retail segregated fund products which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB).

In Europe, the Company offers unitized with profits (UWP) products, which are similar to segregated fund products. The investment guarantees are reinsured on a stop-loss basis to Canada Life Reinsurance Ltd., a subsidiary of Canada Life. A GMWB product was introduced in Germany in the first quarter of 2009.

In the U.S., the Company offers variable annuities with GMDB through GWL&A and First Great-West Life & Annuity Insurance Company. Most are a return of premium on death with the guarantee expiring at age 70.

The majority of the guarantees in connection with the Canadian retail segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to LRG, not including the new products launched on October 5, 2009, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a portfolio of GMDB, GMAB, and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance companies. LRG has reinsured, on a stop-loss basis, the guarantees it assumed from Great-West Life and Canada Life to the London Life Barbados branch.

For policies with these guarantees the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level. The CTE75 level determines the amount of policy liabilities as the amount required in excess of the policyholder funds in the average of the 25% worst scenarios tested, using scenario generating processes consistent with the Canadian Institute of Actuaries Standards of Practice. Policyholder funds include equities (common shares and real estate), and fixed income (bond, mortgage, and money market) investment funds. Generally, if this amount is less than zero, then no policy liability is held for the guarantees.

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The OSFI rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than 5 years. Guarantees on the Great-West Life originated business are valued using factors prescribed by the Office of the Superintendent of Financial Institutions (OSFI).

The GMWB products offered by the Company in Canada and Germany provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the particular underlying segregated funds. Where the market value of the particular underlying funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed income market returns, interest rates, market volatility, policyholder behaviour and policyholder longevity.

In 2009, the Company implemented a hedging program to mitigate certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets and interest rates. Equity derivative instruments are used to mitigate changes in the embedded option value attributable to equity market movements. In addition, interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to interest rate movements. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged, or cannot be hedged on a cost-effective basis. These risks include policyholder behaviour, policyholder longevity, basis risk and market volatility. Consequently, the dynamic hedging program will not mitigate all risks to the Company associated with the GMWB products, and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in this GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

A senior management committee has been established to monitor the day to day hedge performance analysis and to make adjustments as appropriate.

At December 31, 2009, the amount of GMWB product in-force in Canada and Germany was $119 million. Through its hedging program, the Company, at December 31, 2009, had in place index futures with an aggregate notional amount of $5 million to mitigate equity market risk, interest rate swaps with an aggregate notional amount of $19 million to mitigate interest rate risk, and foreign currency forward contracts with an aggregate notional amount of $3 million to mitigate foreign currency translation risk.

Segregated funds guarantee exposure

	December 31, 2009			
		Deficiency by benefit type		
	Market value	Death	Maturity	Income
Canada				
Great-West Life/London/Canada life	$ 21,363	$ 390	$ 45	$ –
London Reinsurance Group	96	–	41	–
Sub-total	21,459	390	86	–
United States				
GWL&A	8,575	132	–	–
London Reinsurance Group	1,180	56	–	378
Sub-total	9,755	188	–	378
Europe	1,868	182	–	–
Total	$ 33,082	$ 760	$ 86	$ 378

At December 31, 2009, the excess of policyholder guaranteed minimum death benefits (GMDB) over the market value of the policyholder funds was $0.8 billion. This should be interpreted to mean that, if all of the policyholders with in-the-money guaranteed minimum death benefits had died on December 31, 2009, the Company would have been obligated to pay death benefits of approximately $33.8 billion, or $760 million ($1,006 million at September 30, 2009) in excess of the market value of the policyholder's funds on that date. If markets were to remain at December 31, 2009 levels, the GMDB related payments over the next twelve months are estimated to be $10 million ($12 million at September 30, 2009).

At December 31, 2009, the Company had limited exposure to maturity guarantees on its Canadian individual segregated fund businesses as these businesses are more heavily weighted towards the base 75% maturity guarantee, and the value of the guarantee takes into account the period of time over which the policies mature. The period of time remaining to maturity on the Company's third party LRG business is limited and as a result the Company expects the $41 million deficiency on this business to result in claim payments over the next twelve months.

The TGCR at December 31, 2009 was $37 million ($62 million at September 30, 2009).

Credit Markets Impact

Credit markets impact on common shareholders' net income (after-tax)

	For the three months ended December 31, 2009			For the twelve months ended December 31, 2009		
	Impairment (charges)/ recoveries	Charges for future credit losses in actuarial liabilities	Total	Impairment (charges)/ recoveries	Charges for future credit losses in actuarial liabilities	Total
Canada						
IIIP	$ 1	$ 1	$ 2	$ (4)	$ (3)	$ (7)
Group Insurance	(2)	–	(2)	(2)	(1)	(3)
Sub-total	(1)	1	–	(6)	(4)	(10)
United States						
Financial Services	(11)	(5)	(16)	(19)	(75)	(94)
Asset Managment	(2)	–	(2)	(2)	–	(2)
Sub-total	(13)	(5)	(18)	(21)	(75)	(96)
Europe						
Insurance & Annuities	(1)	(41)	(42)	(13)	(335)	(348)
Reinsurance	(14)	(8)	(22)	(12)	(113)	(125)
Sub-total	(15)	(49)	(64)	(25)	(448)	(473)
Total	$ (29)	$ (53)	$ (82)	$ (52)	$ (527)	$ (579)
Per common share			$(0.09)			$ (0.61)

Investment impairment charges

Investment impairment charges include additional market value fluctuations on investment exposures previously identified as impaired at the beginning of the period, as well as charges on investment exposures identified as impaired in the period.

For the three months ended December 31, 2009, the Company recorded gross charges of $182 million in connection with investments that have been determined to be impaired. The impact of these charges on net income attributable to common shareholders was reduced by a release of $111 million of asset default provisions that were being held in actuarial liabilities against these investments. In addition, the Company, primarily through its subsisidiary in the United States, credits a lower interest rate on policyhoder funds, which it takes credit for in establishing actuarial liabilities. Through this pass-through ability and other actuarial reserve offsets, a further $34 million was offset against gross investment impairment charges recognized in the quarter resulting in net impairment charges of $37 million pre-tax, which negatively impacted common shareholder net income by $29 million after tax.

For the twelve months ended December 31, 2009, gross investment impairment charges were $230 million. After reflecting the mitigating effect of the release of asset default provisions and pass-through items, net impairment charges were $74 million pre-tax, which negatively impacted net income attributable to common shareholders by $52 million after-tax.

Impaired investments

	December 31, 2009			December 31, 2008		
	Gross amount	Impairment provisions	Carrying amount	Gross amount	Impairment provisions	Carrying amount
Impaired investment by type (1)						
Held for trading	$ 527	$ (282)	$ 245	$ 175	$ (149)	$ 26
Available for sale	55	(36)	19	18	(17)	1
Loans and receivables	151	(81)	70	93	(60)	33
Total	$ 733	$ (399)	$ 334	$ 286	$ (226)	$ 60

(1) Includes impaired amounts on certain funds held by ceding insurers.

Impaired investments include bonds in default, bonds with deferred non-cumulative coupons, mortgages in default or in the process of foreclosure, real estate acquired by foreclosure, and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments on a gross basis, totalled $733 million or 0.72% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2009 compared with $286 million or 0.28% at December 31, 2008.

The $447 million increase in gross impaired investments includes $273 million of bonds that were subject to credit guarantees provided by Financial Guaranty Insurance Company (FGIC). On November 24, 2009, FGIC was directed by the New York Department of Insurance to suspend payments under its guarantee contracts. As a result, FGIC-wrapped bonds held by the Company, where losses are expected, have been determined to be impaired. The increase in impaired investments also includes $57 million of certain non-cumulative bonds issued by Lloyds Banking Group (Lloyds) ($14 million), Bank of Ireland ($37 million) and Allied Irish Bank ($6 million). The coupons on these bonds are non-cumulative, and the issuers have announced the deferral of coupon payments on these bonds. Other increases include impairments related to certain investments in the auto sector of $38 million, certain commercial mortgages in the U.K. of $66 million, as well as exposure to CIT Group of $46 million.

Impairment provisions at December 31, 2009 were $399 million, compared to $226 million at December 31, 2008, an increase of $173 million. The increase includes gross investment impairment charges of $230 million including $132 million related to certain FGIC-wrapped bonds, as well as $33 million in connection with the holdings of securities with deferred non-cumulative coupons. Partly offsetting these increases was a reduction of $26 million relating to impaired investments that were disposed of in the year. The remaining increase from December 31, 2008 primarily reflects the effect of in-year currency movement.

Provision for future credit losses

At December 31, 2009, the total provision for future credit losses in actuarial liabilities was $2,467 million, compared to $2,492 million at September 30, 2009, a decrease of $25 million.

The $25 million decrease includes a $116 million decrease in provisions in connection with investments that have been determined to be impaired (both participating and non-participating), and the strengthening of the Canadian dollar which reduced provisions by $30 million in the quarter. These decreases were partly offset by a $70 million increase in provisions relating to credit rating downgrade activity in the quarter on fixed income securities held by the Company, a $5 million increase in provisions in connection with basis changes made by the Company regarding its methodology for calculating the provisions, and a $46 million increase due mainly to growth in the block of actuarial liabilities.

The increase in provisions for future credit losses relating to credit rating downgrades and basis changes negatively impacted net income attributable to common shareholders, after adjusting for pass-through features, by $53 million after-tax.

The aggregate of impairment provisions of $399 million ($243 million at September 30, 2009; $226 million at December 31, 2008) and $2,467 million ($2,492 million at September 30, 2009; $1,760 million at December 31, 2008) provision for future credit losses in actuarial liabilities represents 3.1% of bond and mortgage assets at December 31, 2009 (2.9% at September 30, 2009; 2.1% at December 31, 2008).

Unrealized mark-to-market losses

In general, credit conditions have improved in 2009 causing credit spreads to narrow from late 2008 and early 2009 levels. The impact of this credit spread narrowing on fixed income prices has been partly mitigated by an increase in yield on government bonds in 2009.

Gross unrealized bond losses [(1)]

	December 31, 2009		December 31, 2008	
Classification				
Held for trading	**$ 2,909**	**95%**	$ 5,694	93%
Availalble for sale	**145**	**5%**	355	7%
Total	**$ 3,054**	**100%**	$ 6,049	100%

(1) Includes unrealized bond losses on certain funds held by ceding insurers.

At December 31, 2009, gross unrealized bond losses totaled $3,054 million ($6,049 million at December 31, 2008). The held for trading bonds are held primarily in support of actuarial liabilities. The changes in the fair value of these held for trading bonds, excluding investment impairment charges, have been offset by a corresponding change in the value of the actuarial liabilities on the basis that management's assessment is that the Company will ultimately receive all contractual cash flows on these bonds.

Unrealized bond losses and loss provisions

Unrealized bond losses and loss provisions

		Provisions for			
At December 31, 2009	Gross unrealized losses	Future credit losses	Impaired Investments	Total	Ratio
Credit Rating					
A and Higher	$ 1,882	$ 568	$ –	$ 568	30%
BBB	364	500	–	500	137%
Non-investment grade	808	457	318	775	96%
Total bonds	3,054	1,525	318	1,843	
Other (including loans & receivables)		942	81	1,023	
Total		**$ 2,467**	**$ 399**	**$ 2,866**	

Of the $3,054 million of gross unrealized bond losses at December 31, 2009, $1,882 million related to bonds that had a credit rating of A or higher, $364 million related to bonds that had a credit rating of BBB, and $808 million related to bonds that were rated non-investment grade (i.e., had a credit rating of less than BBB).

With respect to the bonds rated non-investment grade, the Company held provisions of $775 million in aggregate. This represented 96% of the $808 million of gross unrealized losses on those bonds at December 31, 2009.

Performing securities subject to deferred coupon

The Company holds certain securities issued by Lloyds and Bank of Ireland that provide for the payment of coupons on a cumulative basis, and where the issuer has deferred the payment of those coupons.

Performing securities subject to deferred coupons

(after Lloyds exchange)	Gross amount	Unrealized gains (losses)	Carrying amount	Accrued income deferred	Deferral period
Cumulative					
Lloyds Banking Group	$ 120	$ (26)	$ 94	$ –	2010–12
Bank of Ireland	7	(4)	3	1	2010–12
	$ 127	$ (30)	$ 97	$ 1	

On November 3, 2009, the Royal Bank of Scotland Group PLC (RBS) and Lloyds announced capital and restructuring plans which contemplated a deferral of coupons and extensions of anticipated redemption dates on certain capital securities. RBS confirmed that, where contractually possible, RBS was obligated to defer coupon payments pursuant to an order from the European Commission. A prior press release from RBS (dated October 20, 2009) confirmed that certain holdings, otherwise subject to deferral, could fall into a "must pay" category due to restrictive terms on ability to defer. These restrictions require RBS to continue to pay interest on otherwise deferrable securities if they have or are required to make interest or dividend payments on equally ranking or junior securities. The Company was able to determine that all of its holdings of RBS securities subject to deferral (gross amount of $465 million) currently fall into the "must pay" category.

On January 21, 2010, the Bank of Ireland also announced a deferral of payment of coupons on certain securities.

The Company holds securities with a gross amount of $127 million where the issuer has exercised its contractual right to defer the payment of coupons. Based on information presently available, management believes there is reasonable assurance of collection of the deferred coupons at the end of the deferral period. The actuarial cash flow valuation models used by the Company recognize the delay in receipt of these coupons in the reserve setting process, and the Company's actuarial liabilities at December 31, 2009 included asset default provisions of $64 million in connection with these securities.

Exchange of capital securities

Subsequent to the November 3, 2009 announcement Lloyds announced an optional securities exchange. In response to this exchange offer, the Company exchanged $275 million par value of Lloyds capital securities for newly issued Enhanced Capital Notes (ECNs). The securities were exchanged on a par for par basis. The ECNs acquired in the exchange provide a higher coupon than the original notes, have fixed maturity dates, and have no option to defer the payment of coupons. In addition, the ECNs include provisions that result in the securities converting to equity if Lloyds core T1 ratio falls below 5%.

The more favourable terms of the ECNs (higher coupon, fixed maturity dates, no deferral option) resulted in a significant contribution to the trading gains recognized in the fourth quarter in connection with the Company's cash flow valuation actuarial reserve determination. However, the positive impact of the higher trading gains was largely offset by an increase in asset default provisions as a result of the risk associated with the potential conversion of the ECNs into equity. Based on information presently available, management's best estimate is that all contractual cash flows will be received on the ECNs.

Impact on Liquidity and Capital

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2009, Lifeco held cash and government short term investments of $5.7 billion. This includes approximately $1.0 billion held directly at the holding company level mainly as a result of a series of capital issuance, redemptions and buy back activity in 2008 and 2009. In addition, Lifeco and its operating subsidiaries held government bonds of $17.9 billion. Lifeco also maintains a $200 million committed line of credit with a Canadian chartered bank.

Lifeco's financial condition and regulatory capital position remained strong at December 31, 2009. In this regard, Great-West Life's consolidated Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio was 204%, which is above the Company's target operating range of 175% to 200%. At December 31, 2009, the Risk Based Capital ratio (RBC) of GWL&A, Lifeco's regulated U.S. operating company was estimated to be in excess of 400% of the Company Action Level of the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.

Consolidated Operating Results

Net Income

Consolidated net income of Lifeco includes the net income of Great-West Life and its operating subsidiaries London Life and Canada Life, GWL&A and Putnam, together with Lifeco's corporate results.

Lifeco's net income attributable to common shareholders for the three month period ended December 31, 2009 was $443 million compared to a loss of $907 million reported a year ago. On a per share basis, this represents $0.468 per common share ($0.467 diluted) for the fourth quarter of 2009 compared to a loss of $1.011 per common share ($1.009 diluted) a year ago.

For the twelve months ended December 31, 2009, Lifeco's net income attributable to common shareholders was $1,627 million compared to $1,396 million reported a year ago. On a per share basis, this represents $1.722 per common share ($1.719 diluted) for 2009 compared to $1.560 per common share ($1.553 diluted) a year ago.

The 2008 results included the following:

The impact of certain items, described below, that totalled $(1,432) million after-tax for the three months ended December 31, 2008, and $(665) million after-tax for the twelve months ended December 31, 2008.

In the fourth quarter of 2008, the Company recorded a non-cash impairment charge in connection Putnam goodwill and intangibles of $(1,353) million after-tax. In addition, the Company recorded a valuation allowance against a Putnam deferred tax asset of $(34) million after-tax, and a Putnam restructuring charge of $(45) million after-tax.

In the second quarter of 2008, the Company realized a gain of $649 million after-tax in connection with the sale of its Great-West Healthcare business.

In the first quarter of 2008, the Company realized a gain of $176 million after-tax in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies, and the Company increased policy reserves by $58 million after-tax to provide for an increase in overhead costs expected to be absorbed as a result of the sale of Great-West Healthcare.

Excluding these items, adjusted net income attributable to common shareholders was $2,061 million or $2.303 per common share for the twelve months ended December 31, 2008.

Net Income – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	Dec. 31 2009	Dec. 31 2008
Canada					
Individual Insurance & Investment Products	$ 139	$ 146	$ 120	$ 572	$ 673
Group Insurance	94	102	96	395	391
Canada Corporate	13	(36)	12	(84)	(61)
	246	212	228	883	1,003
United States					
Financial Services	78	77	112	320	339
Asset Management	(37)	(11)	(18)	(90)	(23)
U.S. Corporate	(5)	2	(12)	(2)	(7)
	36	68	82	228	309
Europe					
Insurance & Annuities	124	132	169	387	560
Reinsurance	43	38	58	153	186
Europe Corporate	(2)	(3)	(3)	(11)	(20)
	165	167	224	529	726
Lifeco Corporate	(4)	(2)	(9)	(13)	(20)
Continuing operations – adjusted	443	445	525	1,627	2,018
Discontinued operations – adjusted (1)	–	–	–	–	43
Net income – adjusted	443	445	525	1,627	2,061
Adjustments after-tax (1)	–	–	(1,432)	–	(665)
Net income	$ 443	$ 445	$ (907)	$ 1,627	$ 1,396

(1) United States segment.

Refer to each segment for further detail.

Premiums and Deposits

Premiums and deposits includes premiums on risk-based insurance and annuity products as well as premium equivalents on self-funded group insurance administrative services only contracts, and deposits on individual and group segregated fund products and proprietary mutual funds and institutional accounts.

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. To facilitate year-over-year comparison, premiums and deposits have been adjusted to exclude Prime Money Market Funds net deposits of US$325 million and US$2,134 million and US$(9,967) million in the first, second and third quarters of 2008 respectively.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	Dec. 31 2009	Dec. 31 2008
Canada					
Individual Insurance & Investment Products	$ 2,914	$ 3,067	$ 2,722	$ 11,731	$ 11,118
Group Insurance	1,671	1,650	1,646	6,658	6,463
	4,585	4,717	4,368	18,389	17,581
United States					
Financial Services	1,875	1,756	1,926	7,676	5,779
Asset Management	5,902	4,923	6,317	20,942	29,985
	7,777	6,679	8,243	28,618	35,764
Europe					
Insurance & Annuities	1,391	1,168	1,769	5,588	6,803
Reinsurance	907	988	954	4,143	16,311
	2,298	2,156	2,723	9,731	23,114
Total	$ 14,660	$ 13,552	$ 15,334	$ 56,738	$ 76,459

Q4 2009 vs Q4 2008

In 2009, total premiums and deposits were $14.7 billion, a decrease of $674 million over 2008. Canada was up $217 million primarily due to the launch of the new segregated funds product, and an increase in guaranteed interest rate products and payout annuity products. United States decreased $466 million primarily due to a decrease in asset management deposits. Europe decreased by $425 million primarily due to lower net premiums in the U.K., as well as currency movement.

Q4 2009 vs Q4 2008 (twelve months)

In 2009, total premiums and deposits were $56.7 billion, a decrease of $19.7 billion over 2008. Canada was up $808 million primarily due to the transfer of assets from Fidelity Investment Canada ULC (Fidelity) offset by a decrease in deposits to individual investment funds and group plans. United States decreased $7.1 billion due to a decrease in asset management deposits partly offset by two large plan sales in the public non-profit market totalling US$1.5 billion. Europe decreased by $13.4 billion primarily due to the Standard Life transaction in the first quarter of 2008 which increased premium income by $12.5 billion.

Q4 2009 vs Q3 2009

Compared to the third quarter of 2009, total premiums and deposits increased by $1.1 billion. Canada decreased $132 million reflecting the transfer of assets from Fidelity in the third quarter, partly offset by the launch of new segregated funds products, the United States was up $1.1 billion primarily due to an increase in asset management deposits and higher sales of the BOLI product, and Europe was up $142 million primarily due to an increase in sales of pensions and savings products partly offset by the commutation of reinsurance contracts.

Refer to each segment for further detail.

NET INVESTMENT INCOME

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Investment income earned	**$ 1,448**	$ 1,608	$ 1,451	**$ 6,131**	$ 5,910
Amortization of net realized and unrealized gains/(losses) on real estate investments	**1**	(5)	(5)	**(14)**	23
(Provision)/recovery of credit losses on loans and receivables	**(2)**	(7)	(5)	**(39)**	(4)
Other net realized gains/(losses)	**30**	12	–	**167**	98
Regular investment income	**1,477**	1,608	1,441	**6,245**	6,027
Investment expenses	**(16)**	(17)	(18)	**(66)**	(65)
Regular net investment income	**1,461**	1,591	1,423	**6,179**	5,962
Changes in fair value of held for trading assets	**(549)**	3,734	(368)	**3,490**	(5,161)
Net investment income	**$ 912**	$ 5,325	$ 1,055	**$ 9,669**	$ 801

Q4 2009 vs Q4 2008

Net investment income in 2009 decreased by $143 million compared to the same period last year. The year-over-year decrease is primarily due to the decrease in fair value of held for trading assets of $549 million resulting from an increase in government bond rates in 2009 compared to a decrease in fair value of held for trading assets of $368 million in 2008. Regular net investment income increased slightly primarily as a result of realized gains on disposed assets and currency movement.

Net investment income in the quarter includes $182 million of investment impairment charges, consisting of $2 million related to investments classified as loans and receivables and $180 million related to charges on investments classified as held for trading or available for sale.

Q4 2009 vs Q4 2008 (twelve months)

Net investment income in 2009 increased by $8.9 billion compared to the same period last year. The year-over-year increase is primarily due to the increase in fair value of held for trading assets of $3.5 billion in 2009 compared to a decrease of $5.2 billion in 2008. Regular net investment income increased due to an increase in investment income earned and other net realized gains as well as currency movement, partly offset by an increase in provision for credit losses on loans and receivables, and lower amortization of net realized and unrealized gains/(losses) on real estate investments. The increase in other net realized gains is mainly due to the gain on sale of Putnam's indirect equity investment in Union PanAgora Asset Management GmbH (Union PanAgora) of US$60 million (pre-tax), after minority interests. The increase in fair value on held for trading assets was due to improved bond and stock values attributable to narrower credit spreads and equity market appreciation year-to-date.

Amortization of net realized and unrealized gains and losses on real estate investments is $37 million lower in 2009. Weaker economic conditions have resulted in an increase in capitalization rates on real estate investments, particularly in the United Kingdom, reflecting a decline in market values. While the Company's real estate portfolio has declined in market value, vacancy rates in the portfolio remained below market vacancy rates reflecting the portfolio's high quality tenant base.

The decline in real estate market values has also resulted in higher loan to value ratios on the Company's portfolio of commercial mortgage loans. However, the portfolio's base of high quality tenants has resulted in high occupancy levels, high debt service coverage ratios, and relatively low levels of payment arrears.

Net investment income in 2009 includes $230 million of investment impairment charges, consisting of $39 million related to charges on investments classified as loans and receivables and $191 million related to charges on investments classified as held for trading or available for sale.

Q4 2009 vs Q3 2009

The decrease in net investment income in the fourth quarter compared to the third quarter is primarily due to the decrease in fair value of held for trading assets of $0.5 billion in the fourth quarter compared to an increase of $3.7 billion in the third quarter.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, and ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Segregated funds, mutual funds and other	$ **730**	$ 694	$ 709	$ **2,701**	$ 2,988
ASO contracts	**35**	34	34	**138**	136
	$ **765**	$ 728	$ 743	$ **2,839**	$ 3,124

Q4 2009 vs Q4 2008

In 2009, consolidated fee income increased $22 million from 2008. Canada increased $19 million and the United States increased $23 million, primarily due to an increase in average assets under management (AUM). Europe decreased $20 million primarily due to lower fees in Ireland and currency movement, partly offset by an increase in fees due to an increase in AUM.

Q4 2009 vs Q4 2008 (twelve months)

In 2009, consolidated fee income was $2.8 billion, down $285 million compared to last year. Canada decreased $96 million and the United States decreased $202 million, mainly due to a decrease in average AUM. Europe increased $13 million primarily due to higher surrender charges in the U.K. and new business in reinsurance, partly offset by lower fees in Ireland.

Q4 2009 vs Q3 2009

In the fourth quarter, fee income increased by $37 million primarily due to an increase in average AUM in Canada and the U.S., partly offset by lower surrender charges in the U.K.

Paid or Credited to Policyholders

This amount includes increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and experience refund payments for risk-based products. It also includes adjustments to actuarial liabilities for changes in fair value of certain invested assets backing those actuarial liabilities and charges for future credit losses in actuarial liabilities. This amount does not include benefit payment amounts for fee-based products (ASO contracts, segregated funds and mutual funds).

Q4 2009 vs Q4 2008

Consolidated amounts paid or credited to policyholders in 2009 were $4.3 billion, a decrease of $529 million from the fourth quarter of 2008. Canada was up $723 million primarily due to higher claims, the United States was up $20 million, and Europe was down $1.3 billion, primarily due to a decrease in fair value of invested assets backing actuarial liabilities and currency movement.

Q4 2009 vs Q4 2008 (twelve months)

In 2009, consolidated amounts paid or credited to policyholders were $23.8 billion, a decrease of $3.0 billion from 2008. Canada was up $4.6 billion and the United States was up $2.4 billion due to increases in carrying value of invested assets backing actuarial liabilities. Europe was down $10.0 billion primarily due to the Standard Life transaction which increased policy liabilities by $12.5 billion in 2008.

Q4 2009 vs Q3 2009

Compared to the third quarter of 2009, amounts paid or credited to policyholders decreased primarily due to a decrease in the fair value of invested assets backing actuarial liabilities and lower claims.

Other Benefits and Expenses

Included in other benefits and expenses are operating expenses, commissions, interest expense on long-term debt and other borrowings, and dividends on preferred shares, as well as premium taxes.

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Total expenses	$ **689**	$ 653	$ 677	$ **2,666**	$ 2,656
Less: investment expenses	**16**	17	18	**66**	65
Operating expenses	**673**	636	659	**2,600**	2,591
Commissions	**391**	319	358	**1,370**	1,342
Premium taxes	**65**	69	69	**257**	223
Financing charges	**62**	93	37	**336**	296
Total	$ **1,191**	$ 1,117	$ 1,123	$ **4,563**	$ 4,452

Q4 2009 vs Q4 2008

Operating expenses for the three months ended December 31, 2009 increased $14 million compared to the same period in 2008. Canada's operating expenses decreased by $50 million mainly due to the reversal of a provision relating to litigation for certain Canadian retirement plans. The United States operating expenses increased by $80 million primarily from increased incentive compensation in Asset Management due to improved investment performance. Europe's operating expenses decreased by $18 million due to higher expenses in 2008 related to the improvement in information technology infrastructure and currency movement. Corporate increased $2 million.

Q4 2009 vs Q4 2008 (twelve months)

Operating expenses for the twelve months ended December 31, 2009 increased $9 million compared to the same period in 2008. Canada decreased $58 million, the United States increased $89 million, Europe decreased $30 million and Corporate increased $8 million for the same reasons as the in quarter period compared to 2008.

Q4 2009 vs Q3 2009

Operating expenses increased by $37 million. Canada decreased by $28 million, the United States increased by $62 million, Europe increased $2 million and Corporate increased $1 million for the same reasons as the in quarter period compared to 2008.

Income Taxes

Income taxes for the three and twelve month periods ended December 31, 2009 were $47 million and $345 million, respectively, compared to $(741) million and $(278) million for the same periods in 2008. Net income before income taxes were $506 million and $2,080 million for the three and twelve month periods ended December 31, 2009, compared to $(1,623) million and $375 million for the same periods in 2008. The change in income tax is largely due to the increase in current year pre-tax income and the non-recurring tax effect of the non-cash impairment charge recorded on indefinite life intangible assets and goodwill.

Consolidated Financial Position

Assets

Consolidated total assets under administration

	December 31, 2009			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 48,585	$ 24,762	$ 29,409	$ 102,756
Goodwill and intangible assets	5,093	1,830	1,721	8,644
Other assets	2,180	2,670	12,119	16,969
Total assets	55,858	29,262	43,249	128,369
Segregated funds net assets	45,005	19,690	22,800	87,495
Proprietary mutual funds and institutional net assets	2,811	120,693	–	123,504
Total assets under management	103,674	169,645	66,049	339,368
Other assets under administration [(1)]	10,905	108,192	110	119,207
Total assets under administration	$ 114,579	$ 277,837	$ 66,159	$ 458,575

	December 31, 2008			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 46,240	$ 26,277	$ 30,535	$ 103,052
Goodwill and intangible assets	5,059	2,152	1,737	8,948
Other assets	1,875	3,494	12,705	18,074
Total assets	53,174	31,923	44,977	130,074
Segregated funds net assets	38,070	17,824	21,854	77,748
Proprietary mutual funds and institutional net assets	2,172	128,950	–	131,122
Total assets under management	93,416	178,697	66,831	338,944
Other assets under administration [(1)]	10,500	92,389	126	103,015
Total assets under administration	$ 103,916	$ 271,086	$ 66,957	$ 441,959

(1) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate in direct proportion with asset levels.

Total assets under administration at December 31, 2009 increased $16.6 billion from December 31, 2008. Invested assets decreased by approximately $296 million due mainly to a decrease in fair value. Segregated funds, mutual funds and institutional net assets and other assets under administration increased by approximately $18.3 billion from December 31, 2008 mainly due to an increase in market values partly offset by net asset redemptions and the strengthening of the Canadian dollar.

Invested assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Invested asset distribution

	December 31, 2009			
	Canada	United States	Europe	Total
Bonds				
Government bonds	$ 9,795	$ 3,970	$ 6,632	$ 20,397
Corporate bonds	17,720	13,258	14,772	45,750
Sub-total bonds	27,515	17,228	21,404	66,147
Mortgages	12,031	1,994	2,659	16,684
Stocks	5,464	538	440	6,442
Real estate	948	140	2,011	3,099
Sub-total portfolio investments	45,958	19,900	26,514	92,372
Cash and cash equivalents	257	360	2,810	3,427
Policy loans	2,370	4,502	85	6,957
Total invested assets	**$ 48,585**	**$ 24,762**	**$ 29,409**	**$ 102,756**

	December 31, 2008			
	Canada	United States	Europe	Total
Bonds				
Government bonds	$ 9,292	$ 5,338	$ 7,874	$ 22,504
Corporate bonds	16,939	12,365	14,746	44,050
Sub-total bonds	26,231	17,703	22,620	66,554
Mortgages	12,518	2,157	2,769	17,444
Stocks	4,126	690	578	5,394
Real estate	931	167	2,090	3,188
Sub-total portfolio investments	43,806	20,717	28,057	92,580
Cash and cash equivalents	142	326	2,382	2,850
Policy loans	2,292	5,234	96	7,622
Total invested assets	$ 46,240	$ 26,277	$ 30,535	$ 103,052

Invested assets include bonds and publicly traded stocks, which are recorded at fair value. At December 31, 2009 total invested assets were $102.8 billion, a decrease of $296 million from December 31, 2008. In general, growth in assets from organic business growth, acquisitions and increases in fair values have been offset by the strengthening of the Canadian dollar in 2009. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Bond portfolio quality (excludes $2,998 million short-term investments, $3,395 million in 2008)

Estimated rating	December 31, 2009		December 31, 2008	
AAA	$ 21,754	34%	$ 25,138	40%
AA	10,585	17	10,765	17
A	19,332	31	18,030	28
BBB	10,113	16	8,809	14
BB or lower	1,365	2	417	1
Total	$ 63,149	100%	$ 63,159	100%

Bond portfolio – The total bond portfolio, including short-term investments, was $66.1 billion or 64% of invested assets at December 31, 2009 and $66.6 billion or 65% at December 31, 2008. Federal, provincial and other government securities represented 31% of the bond portfolio compared to 34% in 2008. The overall quality of the bond portfolio remained high, with 98% of the portfolio rated investment grade and 82% rated A or higher.

Mortgage portfolio

Mortgage loans by type	December 31, 2009 Insured	December 31, 2009 Non-insured	December 31, 2009 Total		December 31, 2008 Total	
Single family residential	$ 1,500	$ 195	$ 1,695	10%	$ 1,850	11%
Multi-family residential	2,963	1,516	4,479	27	5,136	29
Commercial	257	10,253	10,510	63	10,458	60
Total mortgages	$ 4,720	$ 11,964	$ 16,684	100%	$ 17,444	100%

Commercial mortgages

	December 31, 2009				December 31, 2008			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Retail and shopping centre	$ 2,793	$ 306	$ 1,203	$ 4,302	$ 2,667	$ 393	$ 1,509	$ 4,569
Office buildings	1,261	282	612	2,155	1,223	353	571	2,147
Industrial	1,857	869	311	3,037	1,756	767	289	2,812
Other	460	52	504	1,016	498	68	364	930
Total	$ 6,371	$ 1,509	$ 2,630	$ 10,510	$ 6,144	$ 1,581	$ 2,733	$ 10,458

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial loans meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk rating system, which it uses in its underwriting and credit monitoring processes for commercial mortgages. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well-diversified across each geographic region.

The total mortgage portfolio was $16.7 billion or 16% of invested assets at December 31, 2009 compared to $17.4 billion or 17% of invested assets at December 31, 2008. Total insured loans were $4.7 billion or 28% of the mortgage portfolio.

Equity portfolio

Equity portfolio by type	December 31, 2009		December 31, 2008	
Publicly traded stocks	$ 5,529		$ 4,372	
Privately held equity	913		1,022	
Sub-total	6,442	68%	5,394	63%
Real estate	3,099	32	3,188	37
Total	$ 9,541	100%	$ 8,582	100%

Real estate

	December 31, 2009				December 31, 2008			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Head office	$ 240	$ 132	$ 18	$ 390	$ 239	$ 156	$ 20	$ 415
Office buildings	552	–	514	1,066	544	–	616	1,160
Industrial	58	–	420	478	56	–	215	271
Retail	29	4	792	825	29	–	1,064	1,093
Other	69	4	267	340	63	11	175	249
Total	$ 948	$ 140	$ 2,011	$ 3,099	$ 931	$ 167	$ 2,090	$ 3,188

Equity portfolio – The total equity portfolio was $9.5 billion or 9% of invested assets at December 31, 2009 compared to $8.6 billion or 8% of invested assets at December 31, 2008. The equity portfolio consists of public stocks, private equity and real estate. Publicly traded stocks increased in 2009 due to equity market value improvements.

Asset quality – general fund assets – Non-investment grade bonds were $1.4 billion or 2.1% of the bond portfolio at December 31, 2009 compared with $417 million or 0.6% of the bond portfolio at December 31, 2008. The increase in non-investment grade bonds resulted from a number of issuers, largely European financial institutions, being downgraded during the year.

Goodwill and intangible assets

Goodwill and intangible assets have decreased by approximately $304 million due to the strengthening of the Canadian dollar and amortization of finite life intangible assets, partly offset by the increase in intangible assets related to the transfer of assets from Fidelity.

Refer to note 8 to the annual financial statements for further detail. Also refer to the "Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

Other general fund assets

	December 31	
	2009	2008
Funds held by ceding insurers	$ 10,839	$ 11,447
Other assets	6,130	6,627
Total other general fund assets	$ 16,969	$ 18,074

Funds held by ceding insurers decreased $608 million mainly due to the strengthening of the Canadian dollar. Other assets, at $6.1 billion, is made up of several items including premiums in course of collection, future income taxes, interest due and accrued, fixed assets, prepaid amounts, and accounts receivable.

Segregated funds

Segregated funds net assets

	December 31		
	2009	2008	2007
Stocks	$ 59,111	$ 49,992	$ 61,861
Bonds	16,056	14,116	14,798
Mortgages	1,744	1,952	1,949
Real estate	6,012	6,744	6,821
Cash and other	4,572	4,944	3,752
Total	$ 87,495	$ 77,748	$ 89,181
Year over year growth	13%	-13%	–

Segregated funds assets under management, which are measured at market values, increased by $9.7 billion to $87.5 billion at December 31, 2009. The change resulted from net deposits of $3.7 billion and net improvement in the investment market of $10.6 billion. These increases were partly offset by the effect of the strengthening of the Canadian dollar of $4.6 billion.

Proprietary mutual funds and institutional net assets

Proprietary mutual funds and institutional net assets
(excludes Putnam Prime Money Market Funds)

	December 31	
	2009	2008
Mutual funds		
Blend equity	$ 17,107	$ 17,275
Growth equity	11,310	10,365
Equity value	15,341	16,637
Fixed income	24,811	22,820
Money market	177	208
Sub-total	68,746	67,305
Institutional accounts		
Equity	27,532	29,376
Fixed income	27,226	34,441
Sub-total	54,758	63,817
Total proprietary mutual funds and institutional accounts	$123,504	$131,122

Proprietary mutual funds and institutional accounts under management decreased by $7.6 billion primarily as a result of negative asset flows of $14.5 billion and the negative effect of the strengthening of the Canadian dollar against the US dollar of $17.5 billion. The improvement in the investment market conditions partly offset the decrease by $24.4 billion. At December 31, 2009, proprietary mutual funds and institutional accounts were comprised of $120.7 billion at Putnam and $2.8 billion at Quadrus.

LIABILITIES

Total liabilities

Total liabilities

	December 31	
	2009	2008
Policy liabilities	$102,651	$102,627
Deferred net realized gains	133	161
Other general fund liabilities	9,468	10,316
Total liabilities	$112,252	$ 113,104

Total liabilities have decreased from $113.1 billion at December 31, 2008 to $112.3 billion at December 31, 2009.

Policy liabilities

Policy liabilities remained relatively constant compared to December 31, 2008. This is consistent with the change in invested assets backing actuarial liabilities where increases from business growth and market value increases were offset by currency movement.

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Actuarial liabilities increased by approximately $164 million. Actuarial liabilities in Canada increased by $3.1 billion, and decreased by $1.6 billion and $1.3 billion in the U.S. and Europe respectively.

Assets supporting policy liabilities

	Participating	Canada	United States	Europe	Total
December 31, 2009					
Bonds	$ 14,884	$ 14,299	$ 11,843	$ 16,839	$ 57,865
Mortgage loans	6,316	5,327	1,456	2,314	15,413
Stocks	3,747	991	–	130	4,868
Real estate	286	14	–	1,770	2,070
Other	7,542	1,829	491	12,573	22,435
Total assets	**$ 32,775**	**$ 22,460**	**$ 13,790**	**$ 33,626**	**$ 102,651**
Total policy liabilities	**$ 32,775**	**$ 22,460**	**$ 13,790**	**$ 33,626**	**$ 102,651**
December 31, 2008					
Bonds	$ 14,527	$ 12,497	$ 12,467	$ 17,109	$ 56,600
Mortgage loans	6,423	5,583	1,612	2,328	15,946
Stocks	2,808	771	–	158	3,737
Real estate	284	9	–	1,830	2,123
Other	7,924	2,287	518	13,492	24,221
Total assets	$ 31,966	$ 21,147	$ 14,597	$ 34,917	$ 102,627
Total policy liabilities	$ 31,966	$ 21,147	$ 14,597	$ 34,917	$ 102,627

Other assets include: loans to policyholders, cash and certificates of deposit, funds held by ceding insurers, premiums in the course of collection, interest due and accrued, future income taxes, fixed assets, prepaid expenses, accounts receivable and accrued pension assets.

Asset and liability cash flows are carefully matched within reasonable limits to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has helped shield the Company's financial position from interest rate volatility.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2009	2008
Debentures and other debt instruments	**$ 4,142**	$ 3,821
Funds held under reinsurance contracts	**186**	192
Repurchase agreements	**532**	334
Other liabilities	**4,608**	5,969
Total other general fund liabilities	**$ 9,468**	$ 10,316

Total other general fund liabilities at December 31, 2009 were $9.5 billion, a decrease of $848 million from December 31, 2008. Other liabilities include trade payables, accruals and provisions for post-retirement benefits.

Debentures and other debt instruments increased by $321 million.

On June 22, 2009, Putnam executed a new revolving credit facility agreement with a syndicate of banks for US$500 million, an increase of US$300 million from the previous agreement. At December 31, 2009, a subsidiary of Putnam had drawn US$260 million (US$120 million at December 31, 2008) on this credit facility.

On November 16, 2009, the Company issued $200 million principal amount of 5.998% debentures which mature on November 16, 2039. On December 18, 2009, pursuant to an Issuer Bid Circular dated November 11, 2009, in which Lifeco offered to purchase a certain amount of GREATs Series A and CLiCS Series A in exchange for cash or debentures, the Company issued an additional $144 million principal amount of 5.998% debentures due November 16, 2039.

All other liabilities decreased $1.4 billion since December 31, 2008, including a decrease of derivative liabilities of $868 million.

Preferred Shares and Capital Trust Securities

Preferred shares other than perpetual preferred shares (which include soft-retractable and fixed/floating shares) and Capital Trust Securities and debentures are classified as liabilities.

Preferred shares

At December 31, 2009 the Company had outstanding 7,938,500 4.70% Non-Cumulative First Preferred Shares, Series D with a stated value of $203 million.

The terms and conditions of the 4.70% Non-Cumulative First Preferred Shares, Series D allow the holder to convert to common shares of the Company after a specified period of time. The Company, at its option, may redeem these shares before the holders are entitled to convert them to common shares of the Company. Preferred shares of this type are commonly referred to as soft-retractable and represent a form of financing with a term that is effectively fixed.

On December 31, 2009 the Company redeemed all of the 22,089,918 4.80% Non-Cumulative First Preferred Shares, Series E for $26.00 per share.

Capital trust securities and debentures

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life in December 2002, had issued $350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350 million, and Canada Life Capital Trust (CLCT), a trust established by Canada Life in February 2002, had issued $450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450 million. The main features of the trust units are as follows:

Great-West Life Capital Trust Securities (GREATs) – GWLCT issued \$350 million of non-voting GREATs. Each holder of the GREATs is entitled to receive a semi-annual non-cumulative fixed cash distribution of \$29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time.

Canada Life Capital Trust Securities (CLiCS) – CLCT issued \$450 million of non-voting CLiCS consisting of \$300 million of non-voting CLiCS – Series A and \$150 million of non-voting CLiCS – Series B. Each holder of the CLiCS – Series A and CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of \$33.395 and \$37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time.

During 2009, the Company sold in the open market \$138 million principal amount of GREATs and CLiCS that had been previously held by the consolidated group as temporary investments backing policy liabilities. This contributed positively to the MCCSR Available Capital position of the regulated operating subsidiaries. On December 18, 2009, pursuant to an Issuer Bid Circular dated November 11, 2009, in which Lifeco offered to purchase a certain amount of GREATs Series A and CLiCS Series A in exchange for cash or debentures, the Company purchased approximately \$117 million and \$122 million aggregate principal amount of GREATs – Series A and CLiCS – Series A respectively. The Company will hold the GREATs and CLiCS purchased in the fourth quarter at the holding company level as a long-term investment until these instruments are redeemed by the respective capital trust issuers. The purchase of the GREATs and CLiCS by Lifeco does not impact the capital position of the regulated subsidiaries.

In addition, at December 31, 2009, subsidiaries of the Company held \$41 million of CLiCS – Series B instruments as temporary investments. At December 31, 2008, the consolidated group held \$167 million of GREATs and CLiCS – Series A and Series B.

Non-Controlling Interests

Non-controlling interests include participating account surplus in subsidiaries and preferred shares issued by subsidiaries to third parties. Refer to note 15 to the Company's financial statements.

Non-controlling interests

	December 31 2009	2008
Participating account surplus:		
Great-West Life	\$ 436	\$ 417
London Life	1,533	1,549
Canada Life	30	31
GWL&A	5	15
	\$ 2,004	\$ 2,012
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	\$ 157	\$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	\$ 145	\$ 145
Acquisition related fair market value adjustment	2	5
	\$ 147	\$ 150
Non-controlling interests in capital stock and surplus	\$ 63	\$ 13

Share Capital and Surplus

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Share capital outstanding at December 31, 2009 was \$7,248 million, which was comprised of \$1,267 million of perpetual preferred shares, \$230 million of five year rate reset preferred shares, and \$5,751 million common shares.

At December 31, 2009, the Company had 945,040,476 common shares outstanding with a stated value of \$5,751 million compared to 943,882,505 common shares with a stated value of \$5,736 million at December 31, 2008.

At December 31, 2009, the Company had five series of perpetual preferred shares outstanding with an aggregate stated value of \$1,267 million.

The terms and conditions of the \$197 million, 5.90% Non-Cumulative First Preferred Shares, Series F, the \$300 million, 5.20% Non-Cumulative First Preferred Shares, Series G, the \$300 million, 4.85% Non-Cumulative First Preferred Shares, Series H, the \$300 million, 4.50% Non-Cumulative First Preferred Shares, Series I and the \$170 million 5.65% Non-Cumulative First Preferred Shares, Series L do not allow the holder to convert to common shares of the Company or otherwise cause the Company to redeem the shares. Preferred shares of this type are commonly referred to as perpetual and represent a form of financing that does not have an effective fixed term. The Company, at its option, may redeem the Series F shares on or after September 30, 2008, the Series G shares on or after December 31, 2009, the Series H shares on or after September 30, 2010, the Series I shares on or after June 30, 2011 and the Series L shares on or after December 31, 2014. The Company regards the Series F shares, the Series G shares, the Series H shares, the Series I shares and the Series L shares as comprising part of its core or permanent capital. As such, the Company only intends to redeem the Series F shares, the Series G shares, the Series H shares, the Series I shares, or the Series L shares with proceeds raised from new capital instruments issued during the life of the Series F shares, the Series G shares, the Series H shares, the Series I shares, or the Series L shares where the new capital instruments represent equal or greater equity benefit.

In addition, the $230 million of Lifeco Series J First Preferred Shares issued in the fourth quarter of 2008 have a fixed non-cumulative dividend, payable quarterly, of 6.00% per annum during the period March 31, 2009 to but excluding December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

2009 activity

During the twelve months ended December 31, 2009, no common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid. Under the Company's Stock Option Plan, 1,157,971 shares were issued for a total value of $15 million or $12.79 per share.

On October 2, 2009 the Company issued 6,800,000 5.65% Non-Cumulative First Preferred Shares, Series L, (the Series L Preferred Shares) with an aggregate stated value of $170 million.

In November, the Company announced a normal course issuer bid for its common shares commencing December 1, 2009 and ending November 30, 2010. During the course of this bid, the Company may purchase up to but not more than 6,000,000 common shares for cancellation.

During the twelve months ended December 31, 2009, the Company paid dividends of $1.230 per common share for a total of $1,162 million and perpetual preferred share dividends of $72 million.

Unrealized foreign exchange losses on translation of the net investment in foreign operations decreased surplus by $1,069 million since December 31, 2008.

The Company recognized the surrender of Series F Preferred shares with a carrying value of $2 million.

Liquidity and Capital Management and Adequacy

Liquidity

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2009, Lifeco held cash and government short term investments of $5.7 billion ($5.6 billion at December 31, 2008). This includes approximately $1.0 billion ($1.2 billion at December 31, 2008) held directly at the holding company level and other marketable securities. In addition, Lifeco and its operating subsidiaries held Canada and United States and other foreign government bonds of $17.9 billion ($19.4 billion at December 31, 2008).

Funds provided by premiums and fees, investment income and maturities of investment assets are reasonably predictable and normally exceed liquidity requirements for payment of claims, benefits, and expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities. The Company evidenced its ability to raise money in the public markets with the issuance of preferred and common shares in the fourth quarter of 2008 and the issuance of long-term debt and perpetual preferred shares in the fourth quarter of 2009. The Company also maintains a $200 million committed line of credit with a Canadian chartered bank.

The Company does not have a formal dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors. The decision to declare a dividend takes into account a variety of factors including the level of earnings, adequacy of capital, and availability of cash resources. As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

Liquid assets and other marketable securities

	December 31	
	2009	2008
Liquid assets		
Cash, treasury bills and CDs	**$ 5,697**	$ 5,632
Government bonds	**17,880**	19,356
Total liquid assets	**23,577**	24,988
Other marketable securities		
Corporate bonds	**30,464**	29,496
Common/Preferred shares (public)	**5,529**	4,373
Residential mortgages – insured	**4,463**	5,045
Total	**$ 64,033**	$ 63,902

Cashable liability characteristics

	December 31	
	2009	2008
Surrenderable insurance and annuity liabilities		
At market value	**$ 12,261**	$ 11,291
At book value	**29,544**	29,493
Total	**$ 41,805**	$ 40,784

The majority of the liquid assets and other marketable securities are comprised of fixed income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $64.0 billion or 1.5 times the Company's total surrenderable insurance and annuity liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

Cash Flows

Cash flows

	For the three months ended December 31		For the twelve months ended December 31	
	2009	2008	2009	2008
Cash flows relating to the following activities:				
Operations	**$ 1,402**	$ 1,431	**$ 3,958**	$ 3,863
Financing	**(510)**	733	**(1,258)**	(1,554)
Investment	**(437)**	(2,778)	**(1,831)**	(3,292)
	455	(614)	**869**	(983)
Effects of changes in exchange rates on cash and cash equivalents	**(74)**	131	**(292)**	157
Increase (decrease) in cash and cash equivalents in the period	**381**	(483)	**577**	(826)
Cash and cash equivalents from continuing operations, beginning of period	**3,046**	3,333	**2,850**	3,676
Cash and cash equivalents from continuing operations, end of period	**$ 3,427**	$ 2,850	**$ 3,427**	$ 2,850

The principal source of funds for the Company is cash provided by operating activities, including premium income, net investment income and fee income. In general, these funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the quarter, cash and cash equivalents increased by $381 million from September 30, 2009. Cash flows provided by operations decreased by $29 million compared to 2008. For the three months ended December 31, 2009, cash flows were used by the Company to acquire an additional $437 million of investment assets, and $311 million of cash was utilized to pay dividends to the preferred and common shareholders.

For the twelve months ended December 31, 2009, cash and cash equivalents increased by $577 million from December 31, 2008. Cash flows provided by operations in 2009 increased by $95 million compared to 2008. In 2009, cash flows were used by the Company to acquire an additional $1,831 million of investment assets, and $1,234 million of cash was utilized to pay dividends to the preferred and common shareholders, and amounts drawn under Putnam's operating line of credit increased by $171 million.

Commitments/Contractual Obligations

Commitments/contractual obligations

		Payments due by period					
At December 31, 2009	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Long-term debt	$ 3,767	$ 1	$ 1	$ 320	$ 1	$ 1	$ 3,443
2) Operating leases							
– office	521	103	84	70	59	50	155
– equipment	17	6	6	4	1	–	–
3) Purchase obligations	132	60	37	24	11	–	–
4) Credit-related arrangements							
(a) Contractual commitments	407	407	–	–	–	–	–
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	108	108	–	–	–	–	–
Total contractual obligations	$ 4,952	$ 685	$ 128	$ 418	$ 72	$ 51	$ 3,598

1) Long-term debt includes long-term financing used in the ongoing operations and capitalization of the Company.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOCs issued are $2,498 million. Total LOC facilities are $3,236 million.

The Reinsurance operation is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company through certain of its subsidiaries has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions under an agreement arranged in 2005 for a five year term expiring November 15, 2010. The aggregate amount of this LOC facility is US$650 million, and the amount issued at December 31, 2009 was US$612 million, including US$266 million issued by LRG subsidiaries to London Life or other LRG subsidiaries, as described below.

To internal parties

GWL&A Financial Inc. as applicant has provided LOCs in respect of the following:

- US$990 million issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina. These are provided under a US$1.3 billion agreement with a twenty year term with a third party financial institution.
- US$70 million issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$585 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited.
- £117 million issued to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited.
- US$10 million issued to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third party non-U.S. licensed reinsurers.

As well, certain LRG subsidiaries as applicants have provided LOCs totalling US$266 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2010 are excluded due to the significant variability in the assumptions required to project the timing of future contribution.

Capital Management and Adequacy

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the MCCSR. The target operating range of MCCSR ratio for its operating subsidiaries is 175% to 200% (on a consolidated basis).

Great-West Life's MCCSR ratio at December 31, 2009 was 204% (210% at the end of 2008). The MCCSR ratio includes no impact from approximately $1.0 billion of cash at the holding company level accumulated mainly as a result of a series of capital issuance, redemptions and buy back activity in 2008 and 2009. London Life's MCCSR ratio at December 31, 2009 was 239% (253% at the end of 2008). Canada Life's MCCSR ratio at December 31, 2009 was 210% (214% at the end of 2008).

At December 31, 2009, the Risk Based Capital ratio (RBC) of GWL&A, Lifeco's regulated U.S. operating company was estimated to be in excess of 400% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.

The MCCSR position of Great-West Life is negatively affected by the existence of a significant amount of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets in Canada for MCCSR, are deducted in the calculation of available regulatory capital.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management pursuant to the annual capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans.

OSFI Regulatory Capital Initiatives

OSFI has recently undertaken a number of initiatives that either will have or may have application to the calculation and reporting of the MCCSR of certain subsidiaries of the Company.

These initiatives address a variety of topics including the calculation of capital required in connection with segregated fund guarantees, amendments to the MCCSR Guidelines as a result of the adoption of International Financial Reporting Standards, which are scheduled to replace Canadian GAAP, potential revisions to the current MCCSR regime for insurance holding companies, and the introduction of a measure for evaluating stand-alone capital adequacy, or solo capital test.

The Company is presently reviewing the OSFI proposals that have been released to the industry to date, and is in ongoing dialogue with OSFI, the Canadian Institute of Actuaries, the Canadian Life and Health Insurance Association, and other industry participants. At this point, the Company cannot predict what the eventual outcome of these initiatives will be.

Ratings

The Company and its major operating subsidiaries continue to hold strong ratings. Since December 31, 2008, the ratings have been affirmed with a stable outlook by the rating agencies as follows: A.M. Best on January 22, 2009, Moody's Investors Service on February 12, 2009, DBRS Limited on October 30, 2009, Standard and Poor's Ratings Services on November 20, 2009 and Fitch Ratings on December 18, 2009. The ratings affirmations are significant in light of the economic environment over the past year.

Rating agency	Measurement	Lifeco	Great-West	London Life	Canada Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
DBRS Limited	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	AA (low)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

Financial Instruments and Other Instruments

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, and debentures and other debt instruments.

Portfolio investments consist of bonds, stocks, mortgage loans and real estate. Derivatives include Interest Rate Contracts (futures – long, futures – short, swaps, written options, purchased options), Foreign Exchange Contracts (forward contracts, cross currency swaps) and other derivative contracts (equity contracts, credit default swaps).

Debentures and other debt instruments consist of short and long term financings due between one and fifty-eight years.

Financial instrument carrying values currently reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

In accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, the Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, some private bonds, most investment grade and high yield corporate bonds, certain asset backed securities (ABS) and some over the counter derivatives.

Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over the counter derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Financial assets and liabilities carried at fair value by valuation methodology

	December 31, 2009				
	Fair Value	Level 1	Level 2	Level 3	Total
Cumulative					
Held for trading	$ 57,290	9%	90%	1%	100%
Available for sale [(1)]	4,715	2%	97%	1%	100%
Derivatives	808	–	98%	2%	100%
	$ 62,722				
Financial liabilities					
Preferred shares, Series D	$ 203	100%	–	–	100%
Derivatives	251	–	99%	1%	100%
	$ 454				

(1) Excludes private equity classified as available for sale, carried at cost of $891 million.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies. Refer to the "Risk Management and Control Practices" section of this report for a description of the risks and the management of risks related to financial instruments associated with actuarial liabilities.

There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2009. During the twelve month period ended December 31, 2009, the outstanding notional amount of derivative contracts increased by $632 million. The exposure to credit risk, which is limited to the current fair value of those instruments which are in a gain position, increased to $717 million at December 31, 2009 from $652 million at December 31, 2008. For an overview of the use of derivative financial instruments, refer to note 24 to the 2009 Annual Consolidated Financial Statements.

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, structuring, pricing and assuming, and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control practices used to manage the risks, may be broadly grouped into four categories.

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. The risks specifically associated with the Asset Management business are discussed in Operational Risks. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

INSURANCE RISKS

GENERAL

By their nature, insurance products involve commitments by the insurer to undertake financial obligations and provide insurance coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing policy liabilities, to make assumptions regarding expected levels of income and expense. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon the relationship between actual experience and pricing assumptions over the contract period.

The Company maintains Corporate Product Design and Pricing Risk Management Policies, Corporate Underwriting and Liability Risk Management Policies, and Corporate Reinsurance Ceded Policies which are reviewed and approved by the Boards of Directors of the principal operating subsidiaries. These policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes, underwriting and claims management practices, and reinsurance ceded practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies (including approval practices) that each line of business is required to develop, maintain, and follow. Annually the Appointed Actuaries report to the Audit Committees confirming compliance with the policies.

The Company also maintains a Corporate Actuarial Valuation Policy, also reviewed and approved by the Boards of Directors of the principal operating subsidiaries, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied uniformly across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The following identifies the key overarching insurance risks, and risk management techniques used by the Company.

Claims mortality and morbidity

Risk – Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company misestimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected.

Management of risk – Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.

Underwriting limits control the amount of risk exposure.

Underwriting practices control the selection of risks insured for consistency with claims expectations.

Underwriting policies have been developed to support the long-term sustainability of the business. The actuarial liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to make provision for the possibilities of misestimation of the best estimate and/or future deterioration in the best estimate assumptions.

In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company manages large blocks of business which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period.

For some policies, cost of insurance charges could be increased, if necessary to contractual maximums if applicable.

Morbidity risk can be reduced through effective plan design and claims adjudication practices.

Concentration

Risk – For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.

Management of risk – Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company imposes single event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

Risk – For Group health care products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.

Management of risk – The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that takes demographic and other trend factors into account.

Longevity

Risk – Annuitants could live longer than was estimated by the Company.

Management of risk – Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.

In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.

Policy termination

Risk – Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.

Management of risk – Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.

In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage.

Expense management

Risk – Increases in operating expenses could reduce profit margins.

Management of risk – Expense management programs are regularly monitored to control unit costs.

Interest rate pricing and repricing

Risk – Products are priced and valued based on the investment returns available on the assets that support the policy liabilities. If actual investment returns are different than those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or actuarial liability requirements. Products with long term cash flows and pricing guarantees carry more risk.

Management of risk – There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.

To measure the risk, the pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modeling of future investment returns. Risk exposures are monitored against defined thresholds with escalating actions required if outside the thresholds.

Cash flow matching

Risk – Mismatches between asset and liability cash flows could reduce profit margins in unfavorable interest rate environments.

Management of risk – Margins on non-adjustable products are protected through matching of assets and liabilities within reasonable limits. Margins on adjustable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employs modeling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations.

The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are selected and managed in relation to the liabilities in the segment.

Reinsurance assumed

Risk – The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. If a claim occurs, it is likely to be very large.

Management of risk – The Company limits the total maximum claim amount under all contracts.

The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.

Segregated funds and guarantees

Risk – A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with segregated fund income and withdrawal guarantees.

Management of risk – Prudent product design, effective marketing, asset allocation within client portfolios and broad distribution within Canada, all contribute to a significantly diverse profile of in force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada to guarantees related to segregated funds.

In the U.S. variable fund guarantees apply only to death benefits, and then only on products sold in certain markets. The valuation of these products employs stochastic modelling of future investment returns.

The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of purchasing equity futures, currency forwards, and interest rate swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost-effective hedging process, and better management of the liquidity risk associated with hedging. It also results in the Company holding lower required capital and actuarial liabilities, as aggregation of different risk profiles allows the Company to reflect offsets at a consolidated level.

Investment or Market Risk

The Company acquires and manages asset portfolios to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors of certain principal subsidiaries of Lifeco annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. Investments are made in accordance with these investment policies which provide guidance on the mix of assets allowable for each product segment.

A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or market risks associated with the business are outlined below.

Interest rate risk

Risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the assets and liabilities.

Management of risk – Interest rate risk is managed by investing in assets that are suitable for the products sold.

- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to hedge its real dollar liability cashflows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.
- Interest rate swaps and swaptions are used to manage interest rate risk for term mismatches related to investments backing product liability cash flows.

The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly and appropriate actuarial liabilities are calculated and held.

Equity market risk

Risk – Given the volatility in equity market values, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long term expectation of investment returns appropriate for this asset class.

Management of risk – The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and real estate is managed to provide returns that are consistent with the requirements of the underlying segment.

Risk – Returns from equities backing a portion of the non-adjustable life and living benefits insurance policy liabilities will be insufficient.

Management of risk – The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for and balance between short-term income statement volatility and long-term economic value.

Credit risk

Risk – The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.

Management of risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies.

These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.

Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.

Liquidity risk

Risk – The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.

Management of risk – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.

Risk – There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.

Management of risk – Positions are stress tested through scenarios that present severe changes in values. If there is inadequate collateral available to withstand a stressed situation, the amount of underlying risk is limited.

Risk – In the normal course of its Reinsurance business, the Company provides Letters of Credit (LOC) to other parties, or beneficiaries. A beneficiary will typically hold an LOC as collateral in order to secure statutory credit for actuarial liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives it if was unable to renew existing LOCs at maturity.

Management of risk – Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOC issued to the LOC beneficiaries for certain reinsurance treaties.

Foreign exchange risk

Risk – The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the average Canadian dollar relative to the average of those currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of GWL&A and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the United Kingdom, Isle of Man, Ireland and Germany in the Europe segment.

Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates also has an effect on the Company's financial condition. In accordance with GAAP, foreign currency translation gains and losses from net investments in self sustaining foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity.

A 1% appreciation (depreciation) of the average Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) net income from continuing operations before adjustments in 2009 by $8 million.

A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income of shareholders' equity by $72 million as at December 31, 2009.

Management of risk – Management, from time to time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.

The Company uses non-GAAP financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation.

Investments are normally denominated in the same currency as the liabilities supported by those investments.

Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liability using foreign exchange contracts.

Derivative instruments

Risk – There is a risk of loss if derivatives are used for inappropriate purposes.

Management of risk – Approved policies allow derivatives to only be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.

The Company's risk management process governing the use of derivative instruments requires that the Company acts only as an end-user of derivative products, not as a market maker.

The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.

Operational Risks

Following are the significant operational risks associated with the business.

Operational risks

Risk – There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk – The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's internal audit staff. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives.

Appropriate security measures protect premises and information. The Company has emergency procedures in place for short term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and work area facilities.

Changes in managed asset values

Risk – The Company's investment fund businesses are fee-based, with revenue and profitability based on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of new client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decline include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.

Management of risk – Through its wide range of funds, the Company seeks to limit its risk exposure to any particular market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.

The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company-prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk-management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over-concentration and other potential risks.

In some cases the Company charges fees that are not related to assets but are based on premiums or other metrics.

Staff recruitment/retention

Risk – The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel including portfolio managers, research analysts, financial advisors, traders, sales and management personnel and executive officers. The market for these professionals is extremely competitive and is increasingly characterized by the frequent movement of portfolio managers, analysts and salespersons among different firms. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net income. Departures of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.

Management of risk – The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel.

The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.

Contract termination

Risk – The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net income from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could have a material effect on the Company's revenues and profits.

Management of risk – The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines.

The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries (for Putnam, at least eleven times each year) to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.

Access to distribution

Risk – The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of adviser and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Management of risk – The Company has a broad network of distribution relationships. Products are distributed through numerous broker-dealers, MGA's, financial planners and other financial institutions. In addition, Putnam has several strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

HOLDING COMPANY STRUCTURE

Risk – As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, policy liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

The payment of interest and dividends by the principal subsidiaries is subject to restrictions set forth in relevant insurance, corporate and other laws and regulations which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, GWL&A, and their subsidiaries and certain subsidiaries of Putnam.

Management of risk – Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

OTHER RISKS

Other risks not specifically identified elsewhere, include:

RATINGS

Risk – Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and constrain the Company's ability to market and distribute products and services, and damage the Company's relationships with creditors, which may adversely impact future business prospects. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.

Management of risk – The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.

FUTURE ACQUISITIONS

Risk – From time to time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.

Management of risk – Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services.

LEGAL AND REGULATORY RISK

Risk – The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the United States, the United Kingdom and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company.

Potential regulatory changes in Canada include new guidance on capital requirements for segregated funds and other OSFI initiatives, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II).

The Company is expected to adopt International Financial Reporting Standards (IFRS) on January 1, 2011 which may impact the opening retained earnings of the Company. As well, new IFRS guidance including a revised standard on Insurance Accounting is being developed that may increase actuarial liabilities when introduced.

While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve requirements and capital requirements which would increase earnings volatility and increase the risk of technical insolvency, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future.

The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects.

> ***Management of risk*** – The Company monitors compliance with the legal, regulatory accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.
>
> The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Reputational Risk

Risk – In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.

These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.

> ***Management of risk*** – The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign-off on their compliance with the Code of Business Conduct and Ethics annually. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.

Reinsurance

Risk – Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company needs to pledge amounts in collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility.

> ***Management of risk*** – The Company accounts for all reinsurance transactions in accordance with GAAP. In some cases GAAP may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events.

Support systems and costomer service functions

Risk – The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.

> ***Management of risk*** – The Company's operations work with its systems and service providers to obtain reliability and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

Environmental risk

Risk – Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.

Management of risk – The Company endeavors to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.

Socially responsible investing represents a method of investment that promotes a higher level of environmental sustainability, social responsibility and corporate governance. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of real estate properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its Board of Directors and are reviewed annually.

One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) to oversee environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third party clients. The properties for which GWLRA provides property management services are administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation and by-laws. Under the EMP, the Company has established a program of measuring greenhouse gas emissions for the majority of its office properties across Canada. The monitoring and measurement of environmental performance is carried out by a third party environmental consultant.

Globally, the Company's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices and the Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking.

The Company monitors relevant emerging issues, regulations and requirements and through the GWLRA Environmental Committee makes necessary adjustments to established policies and guidelines.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying Lifeco's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's businesses and operations. The significant accounting estimates are as follows:

Fair value measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are recorded to adjust the carrying value to the estimated realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish estimated realizable amount. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded to income, it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Current market conditions have resulted in an increase in the inherent risks of future impairment of invested assets. The Company monitors economic conditions closely in its assessment of impairment of individual loans.

Goodwill and intangibles impairment testing

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually, or more frequently, if an event or change in circumstances indicates that the asset might be impaired. In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit (determined as a residual value after determining the fair value of the assets and liabilities of the reporting unit) to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

For purposes of impairment testing, the fair values of the reporting units are derived from internally developed valuation models using a market or income approach consistent with models used when the business was acquired. Under a market approach, the models consider various factors, including normalized earnings, projected forward earnings, and market multiples such as price earnings ratios, enterprise value to assets under management and price to book multiples. Under the income approach, we estimate the discounted future cash flows for a discrete period, usually three to five years, and a terminal value for each of the reporting units. The future cash flows are based on our best estimates of many inputs, most notably future revenues, cash expenses and taxes, as well as working capital changes over time and capital expenditures. Consideration is also given to economic conditions, and general outlook for the industry and markets in which the reporting unit operates. The discount rates used are based on an industry weighted cost of capital and considers the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections. The terminal value is the value attributed to the reporting unit's operations beyond the discrete projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Where possible, fair values generated internally are compared to market information.

Acquired intangible assets are separately recognized if the benefits of the intangible assets are obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented, or exchanged.

Intangible assets can have a finite life or an indefinite life. Determining the useful lives of intangible assets requires judgment and fact-based analysis.

Intangible assets with an indefinite life are not amortized and are assessed for impairment annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. Similar to goodwill impairment testing, the fair value of the indefinite life intangible asset is compared to its carrying value to determine impairment, if any.

Intangible assets with a finite life are amortized over their estimated useful lives. These assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized to the extent that fair value is less than the carrying value. Amortization estimates and methods are also reviewed. Indicators of impairment include such things as a significant adverse change in legal factors or in the general business climate, a decline in operating performance indicators, a significant change in competition, or an expectation that significant assets will be sold or otherwise disposed of.

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks are estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates. The fair value of intangible assets for distribution channels and technology are estimated using the replacement cost approach. Management estimates the time and cost of personnel required to duplicate the asset acquired.

Policy liabilities

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of policy liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. *A 2% increase in the best estimate assumption would increase non-participating policy liabilities by approximately $216 million causing a decrease in net income of approximately $157 million.*

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. *A 2% decrease in the best estimate assumption would increase non-participating policy liabilities by approximately $229 million causing a decrease in net income of approximately $183 million.*

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. *For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would increase non-participating policy liabilities by approximately $224 million causing a decrease in net income of approximately $155 million.*

Property and casualty reinsurance – Policy liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, policy liabilities have been established using cash flow valuation techniques including discounting. The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the policy liabilities impacting the shareholder income of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- *The effect of an immediate 1% parallel increase in the yield curve would be to increase these policy liabilities by approximately $14 million, causing a decrease in net income of approximately $12 million.*
- *The effect of an immediate 1% decrease in the yield curve would be to increase these policy liabilities by approximately $300 million, causing a decrease in net income of approximately $201 million.*

In addition to the above, if this change in the yield curve persisted for an extended period the range of the tested scenarios might change. The effect of an immediate 1% parallel decrease or increase in the yield curve persisting for a year would have immaterial additional effects on the reported policy liability.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some policy liabilities are supported by real estate, common stocks and private equities; for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate.

- *A 10% increase in equity markets would be expected to additionally decrease non-participating policy liabilities by approximately $35 million, causing an increase in net income of approximately $26 million.*
- *A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately $104 million, causing a decrease in net income of approximately $73 million.*

The best estimate return assumptions for equities are primarily based on long term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- *A 1% increase in the best estimate assumption would be expected to decease non-participating policy liabilities by approximately $344 million causing an increase in net income of approximately $250 million.*
- *A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately $387 million causing a decrease in net income of approximately $279 million.*

Expenses – Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. *A 5% increase in the best estimate maintenance unit expense assumption would increase the nonparticipating policy liabilities by approximately $70 million causing a decrease in net income of approximately $50 million.*

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited. *A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $351 million causing a decrease in net income of approximately $241 million.*

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features – Future policyholder dividends and other adjustable policy features are included in the determination of policy liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is our expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in policy liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non adjustability impacting shareholder income is reflected in the impacts of changes in best estimate assumptions above.

Income taxes – As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the Income Tax Act (Canada) for purposes of determining the amount of the Companies' income that will be subject to tax in Canada. Accordingly, the determination of the Companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise.

Management recognizes that interpretations it may make in connection with its tax filings may ultimately differ from those made by the tax authorities and accounts for these potential differences in its financial statements. Upon resolution of any such differences, amounts provided by management may be recognized in earnings to reflect actual experience.

The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-retirement benefits refer to note 19 to the 2009 Consolidated Financial Statements.

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, the period of time over which benefits will be paid, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience, different from the assumptions, will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Significant assumptions – employee future benefits

At December 31	Defined benefit pension plans 2009	Defined benefit pension plans 2008	Other post-retirement benefits 2009	Other post-retirement benefits 2008
Weighted average assumptions used to determine benefit cost				
Discount rate	**6.8%**	5.9%	**7.1%**	5.8%
Expected long-term rate of return on plan assets	**6.8%**	6.6%	**–**	–
Rate of compensation increase	**4.2%**	4.2%	**3.9%**	4.2%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**6.2%**	6.8%	**6.3%**	7.1%
Rate of compensation increase	**3.9%**	4.2%	**3.9%**	3.9%

Weighted average health care trend rates – In determining the expected cost of health care benefits, health care costs were assumed to increase by 7.1% in 2010 and gradually decrease to a level of 4.5% over 15 years. For 2009, the impact of a 1% change to assumed health care rates on the accrued post-retirement benefit obligation is an approximate $31 million ($28 million in 2008) increase for a 1% increase to rates and an approximate $27 million ($23 million in 2008) decrease for a 1% decrease to rates. Similarly, the impact on the post-retirement benefit expense of a 1% increase to rates is an approximate $2 million ($3 million in 2008) increase and a 1% decrease to rates is an approximate $2 million ($2 million in 2008) decrease.

Significant assumptions – The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments.

The expected rate of return on plan assets is based on expected returns for the various asset classes, weighted by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered, reflecting our best estimates of expected future inflation and expected real yields on fixed-income securities and equities. Other assumptions are based on actual plan experience and best estimates.

The period of time over which benefits are assumed to be paid is based on our best estimate of future mortality. For the majority of geographies, this includes an allowance for mortality improvements. Emerging plan experience is reviewed and considered in establishing our best estimate for future mortality.

As these assumptions relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-retirement benefits expense in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-retirement benefits.

Impact of a change of 0.5% in significant assumptions

	Pension plan		Post-retirement	
	Obligation	Expense	Obligation	Expense
Discount rate				
Increase	$ (181)	$ (4)	$ (18)	$ –
Decrease	198	5	20	–
Expected long-term rate of return on plan assets				
Increase	n/a	(13)	n/a	n/a
Decrease	n/a	13	n/a	n/a
Rate of compensation increase				
Increase	36	4	–	–
Decrease	(34)	(3)	–	–

Funding – The Company's pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $121 million ($98 million in 2008) to the pension plans. The principal post-retirement and other post-retirement benefit plans are unfunded. The Company funds benefit payments for these plans as incurred. During the year, these benefit payments totalled $17 million ($16 million in 2008).

ACCOUNTING POLICIES

Goodwill and Intangible Assets – Effective January 1, 2009, the Company adopted the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. As a result of the adoption of the new requirements, certain software costs previously included in other assets have been reclassified to intangible assets and amortization on software costs previously included in operating expenses had been reclassified to amortization of finite life intangible assets. Intangible assets totals for December 31, 2008 have been restated to include software.

FUTURE ACCOUNTING POLICIES

International Financial Reporting Standards – In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company has developed an IFRS changeover plan which will address key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities.

The Company is in the process of assessing and preparing to implement changes to accounting policies resulting from the transition to IFRS. The following list, though not exhaustive, identifies changes in key accounting policies due to the adoption of IFRS. The company monitors developments in standards and interpretations of standards and industry practices and may change accounting policies described in the following paragraphs.

- Policyholder and reinsurance contract liabilities will be classified as insurance, investment or service contracts as required by IFRS 4, IAS 39 and IAS 18. A review of existing contracts as at December 31, 2009 suggests that a majority of contracts will be classified as insurance contracts. Reinsurance accounts will be presented on the Consolidated Balance Sheets and in the Summaries of Consolidated Operations on a gross basis.
- Certain deferred acquisition costs relating to investment contract liabilities may not meet the criteria for deferral and will be expensed as incurred and the balance of deferred acquisition costs on in-force contracts will be adjusted in the opening Consolidated Balance Sheets. The remaining balance of deferred acquisition costs will be reclassified from policyholder contract liabilities and presented as assets in the Consolidated Balance Sheets.
- The assets and liabilities of segregated funds will be included within the Consolidated Balance Sheets as a single line on each side of the Company's balance sheet measured at fair value.
- Real estate properties will be classified between owner occupied and investment properties. The classification between the two categories will result in a change in measurement in the value of real estate. At transition, owner occupied property will be measured at fair value as its deemed cost, while after transition the cost model will be used to value such properties. Investment properties will be measured at fair value at transition and thereafter under IFRS.
- The Company is monitoring developments in the IFRS standards relating to employee benefits and is considering its options on transition to IFRS as well as post conversion at this time.
- The balance in the unrealized foreign exchange gains (losses) on translation of foreign operations currently included in accumulated other comprehensive income will be reclassified to accumulated surplus upon transition under the exemption offered by IFRS.

In addition, the Company is assessing its future income tax assets and liabilities in connection with any adjustments arising from the transition to IFRS. The Company acknowledges that the above list is not exhaustive of all possible significant items that will occur upon the transition to IFRS. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items. At this time, no significant impact on information or data systems has been identified.

OSFI has reaffirmed its preliminary position in October 2009 that early adoption of IFRS standards with effective dates after 2011 should not be permitted for Federally Regulated Entities (FREs) to ensure financial statements are materially comparable for regulatory monitoring purposes. The Company continues to monitor the potential changes proposed by the International Accounting Standards Board (IASB) and considers the impact changes in the standards would have on the Company's operations.

In November 2009, the IASB issued IFRS 9 to amend how financial assests are classified and measured. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is analyzing the impact the new standard will have on its financial assets.

The Company is monitoring the potential impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting. The Company has not finalized quantifying the effects of the potential significant differences between IFRS and Canadian GAAP which may or may not be material. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. The Company will continue to assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco include the operating results of Great-West Life, London Life, Canada Life, GWL&A, and Putnam.

For reporting purposes, the consolidated operating results are grouped into four reportable segments, Canada, United States, Europe, and Lifeco Corporate reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canadian segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life, and Canada Life. There are two primary business units included in this segment. Through its Individual Insurance and Investment Products (IIIP) business unit, the Company provides life, disability and critical illness insurance products to individual clients, as well as accumulation products and annuity products for both group and individual clients in Canada. Through its Group Insurance business unit, the Company provides life, health, critical illness, disability and creditor insurance products to group clients in Canada.

Selected consolidated financial information – Canada

	As at or for the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 4,585**	$ 4,717	$ 4,368	**$ 18,389**	$ 17,581
Sales	**2,421**	2,393	1,967	**9,031**	8,115
Fee and other income	**249**	238	230	**938**	1,034
Net income – common shareholders	**246**	212	228	**883**	1,003
Total assets	**$ 55,858**	$ 55,506	$ 53,174		
Segregated funds net assets	**45,005**	44,228	38,070		
Proprietary mutual funds net assets	**2,811**	2,724	2,172		
Total assets under administration	**103,674**	102,458	93,416		
Other assets under administration (1)	**10,905**	10,880	10,500		
Total assets under administration	**$ 114,579**	$ 113,338	$ 103,916		

(1) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate in direct proportion with asset levels.

Net income – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
IIIP	**$ 139**	$ 146	$ 120	**$ 572**	$ 673
Group Insurance	**94**	102	96	**395**	391
Corporate	**13**	(36)	12	**(84)**	(61)
Net income	**$ 246**	$ 212	$ 228	**$ 883**	$ 1,003

BUSINESS UNITS – CANADA

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

Business Profile

In Canada, IIIP consists of four business lines: Individual Life Insurance, Living Benefits, Individual Retirement & Investment Services (IRIS) and Group Retirement Services (GRS). Products are distributed through Freedom 55 Financial™ and Great-West Life financial security advisors and Canada Life distribution channels, which include managing general agencies (MGAs) and their associated brokers, as well as independent brokers and intercorporate agreements with other financial institutions.

The Company utilizes diverse, complementary distribution channels and is a leader in Canada in all individual product lines.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

Market Overview

Products and Services

The Company provides a wide array of protection and savings products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 85 London Life segregated funds to retail Freedom 55 Financial clients, 70 Canada Life segregated funds to retail Canada Life clients and 78 Great-West Life segregated funds to retail Great-West Life clients.

Quadrus offers 40 mutual funds under the Quadrus Group of Funds™ brand and over 3,200 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

Competitive Conditions

The individual insurance, savings, and investments marketplace is highly competitive. The Company's competitors include mutual fund companies, insurance companies, banks and investment advisors, as well as other service and professional organizations. Competition focuses on service, technology, cost and variety of investment options, investment performance, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

Market Position

- Manages largest portfolio of life insurance in Canada as measured by premium
- Pre-eminent provider of individual disability and critical illness insurance with 31% market share of in-force premium
- 27% market share of individual segregated funds
- 21% market share of group capital accumulation plans (GCAP)

Products and Services

Individual Insurance

Individual Life Insurance
- Term life
- Universal life
- Participating life

Living Benefits
- Disability
- Critical illness

Retirement & Investment Services

Products
- Segregated funds including lifetime GMWB riders
- Mutual funds
- Retirement savings plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Payout annuities
- Deferred annuities
- Investment management services only plans
- Retirement income funds
- Life income funds
- Residential mortgages
- Banking products

Administrative Services
- Employee stock purchase plans

Distribution

Associated with:

Great-West Life Distribution
- 1,831 Great-West Life financial security advisors
- 2,605 advisors associated with a number of intercorporate arrangements
- 6,761 independent brokers

London Life Distribution
- 3,298 Freedom 55 Financial security advisors

Canada Life Distribution
- 8,014 independent brokers associated with 53 Managing General Agencies (MGAs)
- 1,569 advisors associated with 17 national accounts
- 2,835 Investors Group consultants who actively sell Canada Life products
- 362 direct brokers and producer groups

Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):
- 3,827 investment representatives

Reference to lifetime GMWB refers to retail segregated funds products with lifetime guaranteed minimum withdrawal benefits.

2009 Developments

- On October 5, Great-West Life, London Life and Canada Life launched new retail segregated fund products built on a common administrative platform. The new products offer three levels of death and maturity guarantees, guarantee reset riders and lifetime GMWB. These new products significantly improve the competitive position of our segregated fund offerings. Since the launch, $489 million has been deposited into these new products.
- In the third quarter, GRS completed the transfer of assets from Fidelity Investments Canada ULC (Fidelity) with a total amount of $1.3 billion transferred to the GRS recordkeeping system and $120 million to our mutual fund dealer, Quadrus, bringing the total asset transfers from Fidelity to $1.4 billion.
- The Company's Individual Life Insurance business maintained its position as the market leader in Individual Life Insurance sales. Participating whole life insurance sales increased 22% with the largest growth from sales of the Canada Life participating products which were relaunched in 2007 with additional choice and flexibility.
- Fourth quarter sales of retail guaranteed interest rate products and retail payout annuities increased 63% and 110%, respectively, and are up 66% and 79% for the full year, respectively.
- Net cash flow into the Quadrus Group of Funds was 2.3% in quarter and 11.7% year-to-date as a percentage of opening assets, exceeding the results of the mutual fund industry of 0.1% in quarter and 0.6% year-to-date as reported by the Investment Funds Institute of Canada (IFIC).

Real Estate Funds

The suspension on withdrawals and transfers-out from the Real Estate Segregated Funds (the Funds) of Great-West Life, London Life and Canada Life, effective the close of business December 15, 2008, remained in effect through the fourth quarter of 2009. While the suspension remained in place, London Life processed an initial payment for those unitholders who made a request effective December 4, 2009, at the unit value on that day. To enable the suspension to be lifted, the companies continue work to build liquidity through a disciplined asset sales process that supports the long-term viability of the Funds. Notwithstanding the suspension, the Funds remain open to contributions.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 2,914**	$ 3,067	$ 2,722	**$ 11,731**	$ 11,118
Sales	**2,259**	2,286	1,839	**8,536**	7,614
Fee and other income	**204**	196	182	**760**	840
Net income	**139**	146	120	**572**	673

Premiums and deposits

Q4 2009 vs Q4 2008

Individual Life premiums increased by 6% from 2008, reflecting the continued strong growth in sales of participating insurance. Living Benefits premiums of $70 million increased from $69 million in 2008.

The launch of the new segregated funds products including the lifetime GMWB led to an increase of 12% in total deposits made to retail proprietary investment funds. Also, retail clients continue to turn to guaranteed interest rate products and individual payout annuity products leading to an increase of 59% and 108%, respectively, continuing the momentum as a result of more competitive pricing implemented in early 2009. Despite the higher sales of guaranteed products, the Company's disciplined approach to asset liability management, including cash flow matching, continues to limit its sensitivity to changes in the level of interest rates.

GRS premiums and deposits decreased by 7%. Deposits into investment only products decreased 62% as this business is dependant on a small number of large deposits so results can vary significantly from quarter to quarter. The decrease was partly offset by deposits to group capital accumulation plans (GCAP) and group payout annuities deposits which increased by 5% and 8% respectively.

Q4 2009 vs Q4 2008 (twelve months)

Individual Life premiums increased 6% from 2008 to $2,915 million, reflecting the continued strong growth in sales of participating insurance. Living Benefits premiums of $279 million increased 4% from 2008, reflecting strong persistency.

Retail proprietary investment fund premiums decreased by 26% compared to 2008 primarily due to volatile equity markets in the first half of 2009 and economic uncertainty. Guaranteed interest rate product premiums increased by 169% and payout annuity premiums increased by 77% for the same reasons as for the in-quarter period compared to 2008.

GRS premiums and deposits increased by 21% over 2008 due to the transfer of $1.3 billion of assets from Fidelity. This was partly offset by declines in premiums to other GCAP of 8%, investment only plans of 29% and group payout annuities of 27% due to uncertain economic conditions.

Q4 2009 vs Q3 2009

Individual Life premiums increased 10% from the third quarter of 2009 due to normal seasonality of premiums received from inforce policies of participating whole life insurance. Living Benefits premiums were the same as the third quarter of 2009.

Premiums deposited into retail proprietary investment funds were up 46% from the third quarter due to the launch of the new segregated funds products including the lifetime GMWB rider. Payout annuity premiums were up 31% due to continued momentum as a result of more competitive pricing. Guaranteed interest rate product premiums were down 2%.

GRS premiums were down 34% from the third quarter due to the transfer of assets from Fidelity completed in the third quarter.

Sales

Q4 2009 vs Q4 2008

Individual Life sales were 9% higher than in 2008 due to a 29% increase in the sales of participating whole life insurance. Sales of Living Benefits of $13 million were $1 million higher than in 2008.

Sales for retail proprietary investment funds increased by 39% primarily due to the launch of the new segregated fund products including the lifetime GMWB as clients transferred assets from existing funds into these new products. Guaranteed interest rate product sales, which include reinvested maturities as well as new premium, were 63% more than in 2008. Payout annuity sales increased 110% as a result of more competitive pricing.

GRS sales declined 19% mainly due to a 34% decline in investment only sales. The economic situation has contributed to a significant slow down in activity as plan sponsors are reluctant to change service providers or create plans.

Q4 2009 vs Q4 2008 (twelve months)

Individual Life sales were 10% higher than in 2008 mainly due to continued growth in participating whole life insurance and non-participating term insurance sales. Sales of Living Benefits of $42 million were $3 million lower than in 2008.

Sales of retail proprietary investment funds decreased by 17% due to volatile markets in the first half of 2009 and uncertain economic conditions. Guaranteed interest rate product sales increased by 66% and payout annuities increased by 79% for the same reasons as for the in-quarter period compared to 2008.

GRS sales increased by 66% due to the transfer of assets from Fidelity.

Q4 2009 vs Q3 2009

Individual Life sales were 21% higher than the third quarter of 2009 due to a 36% increase in the sales of participating whole life insurance. Sales of Living Benefits of $13 million were $3 million higher due to growth in both critical illness and disability insurance sales.

Sales of retail proprietary investment funds increased by 89% over the third quarter due to the launch of the new segregated funds products including lifetime GMWB. Guaranteed interest rate product sales were up 6% over the third quarter and payout annuity sales were up 38% as momentum continued in those product lines due to more competitive pricing.

GRS sales decreased by 63% from the third quarter due to the completion of the transfer of assets from Fidelity in the third quarter.

Fee and other income

Assets under administration

	December 31	
	2009	2008
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	$ 6,657	$ 6,136
Segregated funds	21,148	18,593
Proprietary mutual funds	2,811	2,172
Group Retirement Services		
Risk-based products	6,497	6,329
Segregated funds	23,857	19,477
	$ 60,970	$ 52,707
Other assets under administration (1)		
Individual Retirement & Investment Services	$ 3,610	$ 2,818
Group Retirement Services	2,023	1,981
Total	$ 5,633	$ 4,799
Summary by business/product		
Individual Retirement & Investment Services	$ 34,226	$ 29,719
Group Retirement Services	32,377	27,787
Total assets under administration	$ 66,603	$ 57,506

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life and portfolio assets managed by Laketon Investment Management.

Q4 2009 vs Q4 2008

IRIS and GRS fee income increased 12% and 15%, respectively. For IRIS, this was primarily due to an increase in average segregated fund AUM of 11%. For GRS, average segregated fund AUM were up 24% primarily due to the transfer of assets from Fidelity, which are associated with much larger than average cases and so have lower average fee rates than the existing block of business.

Q4 2009 vs Q4 2008 (twelve months)

IRIS and GRS fee income decreased 11% and 6%, respectively, primarily due to decreases in average segregated fund AUM of 9% and 3% respectively. For IRIS, fee income declined by more than the change in average assets because of a shift from equities to fixed income funds, due to declines in equity markets. For GRS, fee income declined by more than the change in average assets due to new business having lower average fees rates, particularly the large cases transferred from Fidelity.

Q4 2009 vs Q3 2009

IRIS fee income increased by 5% and GRS by 4%, primarily due to increases in average segregated fund AUM of 3% and 5% respectively from an increase in average equity market levels.

Net income

Q4 2009 vs Q4 2008

Net income attributable to common shareholders increased $19 million compared to 2008. The increase is primarily the result of higher segregated fund fee income, higher non-credit related actuarial liability basis changes and lower tax expense partly offset by lower Cash Flow Valuation Method (CFVM) gains and smaller mortality gains.

Net income attributable to the participating account was a charge of $8 million in 2009, compared to $19 million in 2008.

Q4 2009 vs Q4 2008 (twelve months)

Net income attributable to common shareholders for 2009 decreased 15% compared to 2008. The decrease is primarily the result of lower segregated fund fee income, lower non-credit related actuarial liability basis changes and a decline in both morbidity and mortality gains partly offset by greater CFVM gains and lower tax expense.

Net income attributable to the participating account was $10 million in 2009, compared to $57 million in 2008.

Q4 2009 vs Q3 2009

The decrease of $7 million is primarily the result of lower mortality and morbidity gains as well as higher tax expense, partly offset by higher non-credit related actuarial liability basis changes.

Net income attributable to the participating account decreased by $3 million from the third quarter of 2009.

Outlook – Individual Insurance & Investment Products

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The IIIP division delivered solid results in 2009, which started with trepidation about an economic recovery and ended with evidence of the recovery gaining traction. Our reputation for strength and stability, combined with prudent business practices and exemplary expense management along with a new suite of segregated fund products, positions the organization well for 2010. We will continue to align product, service and distribution strategies to maximize sales, revenues and earnings.

The recent financial crisis underscores the soundness of the organization's strategy of distributing products through professional advisors. In 2010, we will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach benefits persistency of existing business and helps attract new clients. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors.

Our broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The Company will continue to competitively develop, price and market its comprehensive range of IIIP products. We will maintain our focus on sales and service support for large cases in all channels.

The Company launched new individual segregated fund products for all of its distribution channels in late 2009. These products are market competitive and offer three levels of death and maturity guarantees, guarantee reset riders and lifetime GMWB rider. In the coming year, the organization will focus on building market share with these products. It will also continue to support strong guaranteed investment alternatives so advisors have a full range of options to satisfy a client's needs. We expect fee income from segregated funds and mutual funds to be higher in 2010 as a result of new product offerings, the completion of the transfer of assets from Fidelity and the improvement of the markets in the latter half of 2009. The Company will use its diverse distribution network to leverage its growth in market share.

The Company's diversified offering of individual insurance products including participating whole life, term and universal life insurance, combined with a commitment to new business service will position us to continue to achieve market leading sales in 2010. We will continue to enhance our suite of living benefits products, of which we are a leading provider. Living Benefits will also continue to focus on growing our business through organic growth by constantly improving our new business and client service offer.

Operational expense management continues to be critically important to delivering strong financial results. This will be achieved through disciplined expense controls. Strategic expenditures are equally important – choosing the right strategies and implementing them effectively. Management has identified a number of areas of focus for these investments to facilitate the objective of being the leader in organic growth.

GROUP INSURANCE

Business Profile

In Canada, the Company offers effective benefit solutions for large and small employee groups. Through its Canada Life subsidiary, the Company is a recognized leader in the creditor insurance business with $1.7 billion in annual direct premium.

Market Overview

Products and Services

The Company provides a wide array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

Market Position

- Employee benefits for more than 33,000 plan sponsors
- 22.3% market share for employee/employer plans
- Leading market share for creditor plans

Products and Services

Life and Health

- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor

- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

Distribution

- 107 account managers and sales staff located in 15 Group Offices
- 106 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

Competitive Conditions

There are three large group insurance carriers in Canada with significant market positions, led by the Company with a 22.3% market share. There are a number of other smaller companies operating nationally and several regional and niche competitors. The group insurance market is highly competitive. A strong market share position is essential to compete successfully in the Canadian group insurance market.

Within the small and mid-sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. A company with low cost operations, extensive distribution networks, strong service capability and cost-containment product offerings will have a competitive advantage in these markets.

In the larger case market, while low cost is a factor, service excellence and cost-containment product innovations are most important. In this market, a company that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate itself and achieve competitive advantage.

2009 Developments

- Net premiums and deposits grew by 3% in 2009 compared to 2008.
- Net income attributable to shareholders was $395 million, 1% higher than 2008.
- The Company introduced an improved Guaranteed Standard Issue (GSI) product in 2009. GSI is an Individual Disability product distributed through the Group Insurance customer channel. Enhancements include an expanded range of service features, in particular, a singular customer experience in areas such as billing, enrolment and policy administration.
- In April 2009, The Great-West Life Centre for Mental Health in the Workplace™ announced the launch of Guarding Minds @ Work, a breakthrough, evidence based tool which provides Canadian employers with comprehensive ways in which to assess the psychological safety and health of their workplaces. In October, 2009, the Centre also won the award for Outstanding Achievement in Website Development from the Web Marketing Association.

Operating results

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 1,671**	$ 1,650	$ 1,646	**$ 6,658**	$ 6,463
Sales	**162**	107	128	**495**	501
Fee and other income	**35**	35	35	**142**	142
Net income	**94**	102	96	**395**	391

Premiums and deposits

Q4 2009 vs Q4 2008

Total net premiums and deposits in 2009 were $1,671 million, 2% higher than 2008. Small/mid-size case premiums and deposits remained steady at the same level as last year and large case premiums and deposits increased by 2%.

Q4 2009 vs Q4 2008 (twelve months)

Total net premiums and deposits in 2009 were $6,658 million, 3% higher than 2008, driven primarily by an increase in premiums in the large case market.

Q4 2009 vs Q3 2009

Total net premiums and deposits were 1% higher than the third quarter of 2009. Large case premiums and deposits increased by 1% due to the seasonality of ASO premium equivalents.

Sales

Q4 2009 vs Q4 2008

Sales results were up 26% from 2008. The increase was mainly due to large case sales, including a higher number of new sales compared to 2008.

Q4 2009 vs Q4 2008 (twelve months)

Sales results were down 1% mainly as a result of lower number of new sales in the mid-size market and lower average case size in the large case market. This decrease was partly offset by higher creditor/direct marketing sales from two large sales in 2009 for $38 million compared to two large sales for $29 million in 2008.

Q4 2009 vs Q3 2009

Sales results were up 51% as a result of a higher number of new sales in the small/mid-size market, a higher average case size in the mid-size market and a higher number of new sales in the large case market.

Fee and other income

Fee and other income is derived primarily from ASO contracts, which pursuant to, the Company provides group insurance benefit plan administration on a cost-plus basis.

Q4 2009 vs Q4 2008

Fee and other income was at the same level as in 2008.

Q4 2009 vs Q4 2008 (twelve months)

Fee and other income in 2009 was at the same level as in 2008.

Q4 2009 vs Q3 2009

Fee and other income was at the same level as the third quarter.

Net income

Q4 2009 vs Q4 2008

Net income decreased by $2 million in 2009. The results reflect lower investment gains mainly due to lower trading gains partly offset by higher gains from non-credit related actuarial reserve basis changes.

Q4 2009 vs Q4 2008 (twelve months)

Net income increased by 1% in 2009. The results reflect improved group health experience on long term disability cases particularly in the small and mid-size market, partly offset by weaker group health experience in the medical and dental sublines and lower investment gains.

Q4 2009 vs Q3 2009

Net income decreased 8% from the third quarter. The results reflect weaker group health experience on long term disability cases particularly in the mid-size market and a decrease in group life mortality experience from deteriorated claims experience, partly offset by higher gains from non-credit related actuarial reserve basis changes.

Outlook – Group Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The Company is well positioned within the Canadian group insurance business with leading market shares in many case size, regional and benefit market segments. The Company believes that this market share position, together with its low cost position and extensive distribution capability will facilitate continued growth in revenue premium. Through the effective investment in technologies, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

As the costs of employee benefits continue to gain the attention of plan sponsors, the Company is developing an array of enhanced products and services for plan members, plan sponsors and their advisors. A particular focus in 2010 will be the development of new and innovative electronic claims adjudication capabilities, as well as a continued focus on absence and disability management services, many of which will support earlier return to work capabilities. The Company will also continue its efforts to improve process effectiveness, and therefore unit costs and customer service.

Given the challenging economic environment, expense management will be critically important to delivering strong financial results. This will be achieved through disciplined operational expense controls and focused investment in only the highest priority business initiatives.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with, or allocated to the Canadian business units.

Net Income

Q4 2009 vs Q4 2008

Net income in 2009 was $13 million compared to $12 million in 2008, mainly due to a reversal of a provision relating to litigation for certain Canadian retirement plans of $29 million after-tax in 2009. This increase was offset by fair value adjustments, including a decrease of $26 million of the mark-to-market adjustment in connection with Lifeco Preferred Shares, Series D and Series E compared to 2008, including a gain of $15 million recognized on the redemption of Lifeco Preferred Shares, Series E on December 31, 2009.

Q4 2009 vs Q4 2008 (twelve months)

Net income in 2009 was a loss of $84 million compared to a loss of $61 million in 2008. The decrease is primarily due to fair value adjustments, including a decrease of $63 million of the mark-to-market adjustment in connection with two series of Lifeco Preferred Shares, Series D and Series E compared to 2008 including a $15 million gain recognized on the redemption of Lifeco Preferred Shares, Series E in 2009. The decrease is partly offset by a reversal of a provision relating to litigation for certain Canadian retirement plans of $29 million after-tax.

Q4 2009 vs Q3 2009

Net income increased by $49 million from a loss of $36 million in the third quarter of 2009. The increase is primarily a result of reversal of a provision relating to litigation for certain Canadian retirement plans and the mark-to-market adjustment in connection with Lifeco Preferred Shares, Series D and a gain recognized on the redemption of Lifeco Preferred Shares, Series E. These increases were partly offset by the impact of an income tax rate change in Ontario.

UNITED STATES

The United States operating results for Lifeco include the results of GWL&A, Putnam, and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this report.*

BUSINESS PROFILE

FINANCIAL SERVICES

GWL&A provides an array of financial security products, including employer-sponsored defined contribution retirement plans and defined benefit plans for certain market segments. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 14 state clients as well as the government of Guam. It also provides annuity and life insurance products for individuals, families and corporate executives. Through its FASCore subsidiary, it offers private-label recordkeeping and administrative services for other providers of defined contribution plans.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes domestic and international equity and debt portfolios. Accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES

MARKET POSITION

- Fourth largest defined contribution record-keeper in the country, providing services for 4,200,735 participant accounts
- Significant market share in state and government deferred compensation plans
- 30% market share in business-owned life insurance (BOLI) purchased by financial institutions

PRODUCTS AND SERVICES

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Individual term and single premium whole life insurance, and individual annuity products
- Business-owned life insurance and executive benefit products

DISTRIBUTION

- Retirement services products distributed through brokers, consultants, advisors and third-party administrators to plan sponsors
- FASCore record-keeping and administrative services distributed through institutional clients
- Individual life and annuity products distributed through financial institutions
- Business-owned life insurance and executive benefits products distributed through specialized consultants and through Great-West Retirement Services (Retirement Services)

Asset Management

Market Position

- A Global asset manager with assets under management of US$114.9 billion as of December 31, 2009
- International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Southeast Asia and Australia and through a strategic distribution relationship in Japan

Products and Services

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Alternative investment products across the fixed income, currency, quantitative and equity groups

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker-dealers, financial planners, registered investment advisers and other financial institutions that distribute the Putnam Funds to their customers, which, in total, includes more than 150,000 advisors in over 2,000 firms
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team

Institutional Investors

- Supported by Putnam's dedicated account management, product management, and client service professionals
- Strategic relationships with several investment management firms outside of the United States

Competitive Conditions

Financial Services

The life insurance, savings, and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on service, technology, cost, variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam's as well as products which Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public, conversely, Putnam offers its funds only through intermediaries.

Goodwill and Intangible Assets Impairment

In the fourth quarter of 2008, the Company recorded a non-cash, after-tax impairment charge of US$1,118 million ($1,353 million) in connection with goodwill and intangible assets related to the acquisition of Putnam. The after-tax results are net of Putnam's non-controlling interests portion of the charges of US$6 million. In conjunction with the goodwill and intangible assets charge, the Company also wrote off a future tax asset with regards to State taxes in the amount of US$28 million ($34 million) after-tax in the fourth quarter of 2008. These changes are presented as other adjustments to net income.

Selected consolidated financial information – United States

	As at or for the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 7,777**	$ 6,679	$ 8,243	**$ 28,618**	$ 35,764
Sales	**9,489**	8,509	8,397	**32,383**	42,734
Fee and other income	**358**	308	335	**1,240**	1,442
Net income – continuing operations – common shareholders	**36**	68	(1,350)	**228**	(1,005)
Net income – continuing operations – common shareholders (US$)	**33**	62	(1,116)	**197**	(774)
Total assets	**$ 29,262**	$ 29,794	$ 31,923		
Segregated funds net assets	**19,690**	19,646	17,824		
Proprietary mutual funds and institutional net assets	**120,693**	121,548	128,950		
Total assets under management	**169,645**	170,988	178,697		
Other assets under administration (1)	**108,192**	103,143	92,389		
Total assets under administration	**$ 277,837**	$ 274,131	$ 271,086		

(1) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate in direct proportion with asset levels.

Net income – common shareholders

	For the three months ended			For the twelve months ended	
(C$ millions)	**Dec. 31 2009**	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Continuing operations – adjusted	**$ 36**	$ 68	$ 82	**$ 228**	$ 309
Discontinued operations – adjusted	**–**	–	–	**–**	43
Total – adjusted	**36**	68	82	**228**	352
Discontinued – gain on sale	**–**	–	–	**–**	649
Other adjustments (1)	**–**	–	(1,432)	**–**	(1,314)
Total adjustments	**–**	–	(1,432)	**–**	(665)
Total	**$ 36**	$ 68	$ (1,350)	**$ 228**	$ (313)

Net income – common shareholders

	For the three months ended			For the twelve months ended	
(US$ millions)	**Dec. 31 2009**	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Continuing operations – adjusted	**$ 33**	$ 62	$ 68	**$ 197**	$ 292
Discontinued operations – adjusted	**–**	–	–	**–**	43
Total – adjusted	**33**	62	68	**197**	335
Discontinued – gain on sale	**–**	–	–	**–**	630
Other adjustments (1)	**–**	–	(1,184)	**–**	(1,066)
Total adjustments	**–**	–	(1,184)	**–**	(436)
Total	**$ 33**	$ 62	$ (1,116)	**$ 197**	$ (101)

(1) Consists of after-tax items in 2008:

	US$		C$	
Q1: Gain on termination of reinsurance agreement	$ 176		$ 176	
Reserve strengthening in GWL&A	(58)	118	(58)	118
Q4: Intangible and goodwill impairment	(1,118)		(1,353)	
Valuation allowance, income tax	(28)		(34)	
Restructuring costs	(38)	(1,184)	(45)	(1,432)
		$ (1,066)		$ (1,314)

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2009 Developments

- In 2009, Retirement Services introduced the next generation of target date funds with the launch of the Maxim Lifetime Asset Allocation Series℠.
- Individual Markets has continued its rapid growth reflecting the addition of several new large financial institution relationships and strong Single Premium Life sales.
- Individual Markets continued to strengthen its relationships with key distributors which have translated into substantial sales growth.
- For the twelve months ended December 31, 2009, the impact of weaker equity markets on fee income and actuarial liabilities in Financial Services negatively impacted net income by US$15 million ($19 million) after tax compared to the same period in 2008.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 1,875**	$ 1,756	$ 1,926	**$ 7,676**	$ 5,779
Sales	**3,587**	3,586	2,080	**11,441**	12,749
Fee and other income	**114**	108	123	**427**	446
Net income	**78**	77	112	**320**	339
Premiums and deposits (US$)	**$ 1,770**	$ 1,596	$ 1,592	**$ 6,667**	$ 5,392
Sales (US$)	**3,385**	3,259	1,719	**10,125**	12,272
Fee and other income (US$)	**107**	99	101	**375**	419
Net income (US$)	**73**	70	93	**279**	316

Premiums and deposits

Q4 2009 vs Q4 2008

Premiums and deposits in 2009 increased by US$178 million from 2008. Retirement Services premiums and deposits increased primarily in the public/non-profit market.

Q4 2009 vs Q4 2008 (twelve months)

Premiums and deposits in 2009 increased by $1,275 million. Retirement Services premiums and deposits have increased due to two large plan sales in the public/non-profit market totaling US$1,504 million, partly offset by lower premiums and deposits in Individual Markets (BOLI product) and in the 401(k) market.

Q4 2009 vs Q3 2009

Premiums and deposits increased US$174 million due to higher sales of the BOLI product in the fourth quarter of 2009.

Sales

Q4 2009 vs Q4 2008

Sales in 2009 increased US$1,666 million from 2008. Sales in Retirement Services increased by US$1,754 million from improved sales in both the public/non-profit and 401(k) markets in 2009. Sales in the Individual Markets single premium whole life product have increased significantly. The increases are partly offset by lower sales of BOLI, primarily due to the uncertain economic conditions.

Q4 2009 vs Q4 2008 (twelve months)

Sales in 2009 decreased US$2,147 million from 2008. The decrease is primarily due to a sale in 2008 relating to a large government plan sale in the public/non-profit market which included a US$4.4 billion rollover and US$0.9 billion in recurring sales premium, as well as sales in 2008 from a converted block in the 401(k) market. These decreases were partly offset by four large plan sales of $4.3 billion in 2009.

Q4 2009 vs Q3 2009

Sales increased US$126 million primarily as a result of a large jumbo plan sale in the Retirement Services 401(k) market of US$823 million and a large BOLI product sale of US$250 million, partly offset by lower sales in the public/non-profit market in the fourth quarter.

Financial Services – Retirement Services customer account values

(US$ millions)	Change for the three months ended December 31		Total at December 31		
	2009	2008	2009	2008	% Change
General account – fixed options					
Public/Non-profit	$ (15)	$ (59)	$ 3,408	$ 3,302	3%
401(k)	52	164	3,563	3,269	9%
	$ 37	$ 105	$ 6,971	$ 6,571	6%
Segregated funds – variable options					
Public/Non-profit	$ (32)	$ (367)	$ 7,628	$ 5,639	35%
401(k)	277	(1,063)	6,282	4,651	35%
	$ 245	$ (1,430)	$ 13,910	$ 10,290	35%
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	$ 3,058	$ (8,501)	$ 46,496	$ 36,829	26%
401(k)	1,460	(3,092)	19,905	14,639	36%
Institutional (FASCore)	1,867	(3,732)	35,815	23,603	52%
	$ 6,385	$ (15,325)	$ 102,216	$ 75,071	36%

Account values have improved in the fourth quarter of 2009 due to strong sales and improvements in the U.S. equity markets. The decreases in the fourth quarter of 2008 were due to the declines in the U.S. equity markets partly offset by sales.

Fee and other income

Q4 2009 vs Q4 2008

Fee income in 2009 increased US$6 million primarily in Retirement Services due to higher average assets as a result of the improvement in U.S. equity markets.

Q4 2009 vs Q4 2008 (twelve months)

Fee income in 2009 decreased US$44 million, primarily in Retirement Services. Although the U.S. equity markets did improve in the second half of 2009, average equity market levels for 2009 were lower than the full year average for 2008.

Q4 2009 vs Q3 2009

Fee income improved US$8 million primarily due to the increase in average U.S. equity market levels compared to the third quarter.

Net income

Q4 2009 vs Q4 2008

Net income in 2009 decreased US$20 million primarily due to lower investment income and higher expenses in 2009, partly offset by improved mortality experience in 2009.

Q4 2009 vs Q4 2008 (twelve months)

Net income in 2009 decreased US$37 million, primarily due to lower fee income and higher income taxes in 2009. The decrease was partly offset by higher investment margins and improved mortality experience in 2009. In the third quarter of 2008, tax benefits were recognized in connection with income taxes from prior years.

Q4 2009 vs Q3 2009

Net income increased US$3 million in the fourth quarter primarily due to higher fee income related to improvement in the U.S. equity markets.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2009, Great-West Retirement Services introduced the next generation of target date funds with the launch of the Maxim Lifetime Asset Allocation Series℠ mutual funds (Maxim Lifetime funds) which offer a choice of multiple glide paths from conservative to aggressive, a variety of investment managers, and an asset allocation approach that extends beyond retirement.

The Maxim Lifetime funds are well positioned to allow Retirement Services to participate in the increasing popularity of target date investment options within defined contribution plans, particularly through their use as Qualified Default Investment Alternatives (QDIAs) as provided for under the Pension Protection Act.

The Maxim Lifetime funds are the latest addition to the Retirement Services investment product shelf; a set of products and services designed by Retirement Services specifically for the retirement markets. The Maxim Lifetime funds are expected to contribute significantly to the growth of assets under management (AUM) by Retirement Services and/or its affiliates.

In 2009, Individual Markets continued its rapid growth reflecting the addition of several new large financial institution relationships and strong Single Premium Life sales. The Company also continued to strengthen its relationships with key distributors which have translated into substantial sales growth. In excess of 130 new BOLI clients were added during 2008 and 2009. These new relationships should contribute to continued sales growth in 2010.

In 2010, the Company will continue its emphasis on reinvestment in infrastructure through technology, service and product enhancements while also maintaining a solid expense control foundation.

The Company will focus on developing and expanding new distribution channels in 2010, ensuring that through its successful relationships with other distributors, it will create a solid base for future growth. A continued focus on providing excellent customer service and a diversity of product offerings provides a sound basis for growth in 2010.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes U.S. and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

2009 Developments

- In 2009, Putnam undertook restructuring activities to respond to the impact of financial market conditions on assets and revenues, and better focus Putnam's service and distribution in core markets, and build a culture that rewards excellence.
- Putnam was ranked #1 out of 61 fund families in the 2010 annual Lipper/Barron's Fund Families Survey based on its funds' performance during 2009.
- Putnam introduced several new products including ten mutual funds and four target absolute return mutual funds and a 401(k) defined contribution platform.
- Putnam's suite of absolute return mutual funds, launched publicly on January 13, 2009, has reached US$1.1 billion in AUM as of December 31, 2009.
- Putnam introduced measures to make its fee structure on retail mutual funds more competitive.
- For the twelve months ended December 31, 2009, the impact of weaker equity markets on fee income in Asset Management negatively impacted net income by US$64 million ($74 million) after-tax compared to the same period in 2008.
- On January 19, 2009, PanAgora, a subsidiary of Putnam, sold its equity investments in Union PanAgora to Union Asset Management; gross proceeds received of approximately US$75 million recorded in net investment income, resulted in a gain to Putnam of approximately US$33 million after taxes and minority interests, reflected in the table below in net income.

Operating results

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits [(1)]	**$ 5,902**	$ 4,923	$ 6,317	**$ 20,942**	$ 29,985
Fee and other income					
Investment management fees	**182**	139	147	**568**	708
Service fees	**43**	45	50	**182**	216
Underwriting and distribution fees	**17**	14	14	**57**	67
Fee and other income	**242**	198	211	**807**	991
Net income – adjusted [(2)]	**(37)**	(11)	(18)	**(90)**	(23)
Premiums and deposits (US$) [(1)]	**$ 5,568**	$ 4,476	$ 5,221	**$ 18,410**	$ 28,519
Fee and other income					
Investment management fees (US$)	**172**	126	121	**503**	674
Service fees (US$)	**41**	40	42	**159**	205
Underwriting and distribution fees (US$)	**16**	14	12	**51**	64
Fee and other income (US$)	**229**	180	175	**713**	943
Net income (US$) – adjusted [(2)]	**(35)**	(10)	(15)	**(80)**	(19)

(1) Premiums and deposits exclude Prime Money Market Fund net deposits of US$325 million, US$2,134 million and US$(9,967) million in the first, second and third quarters of 2008 respectively.
(2) Net income – adjusted excludes the following items from the fourth quarter of 2008 after-tax:

	US$	C$
Q4: Intangible and goodwill impairment	(1,118)	(1,353)
Valuation allowance, income tax	(28)	(34)
Restructuring costs	(38)	(45)
	$ (1,184)	$ (1,432)

Note: A significant factor impacting net income in the fourth quarter of 2009 was an increase in incentive compensation due to improved investment performance.

Premiums and deposits

Asset Management premiums and deposits includes deposits from gross sales of long term assets and excludes net sales of prime money market assets.

Q4 2009 vs Q4 2008

Premiums and deposits in 2009 increased US$347 million due to an increase in sales as a result of stronger economic conditions in 2009 compared to 2008 and the introduction of new products.

Q4 2009 vs Q4 2008 (twelve months)

Premiums and deposits in 2009 decreased US$10,109 million due to a reduction in sales as a result of weaker economic conditions and more volatile markets in the first three quarters of 2009 compared to 2008.

Q4 2009 vs Q3 2009

Premiums and deposits for the fourth quarter increased US$1,092 million from the third quarter due to increased sales as a result of improving performance, the impact of new products, and improving economic conditions during the fourth quarter of 2009.

Fee and other income

Revenue is derived primarily from investment management fees, transfer agency and other shareholder service fees and underwriting and distribution fees. Generally, fees are earned based on average AUM and may depend on financial markets, the relative performance of Putnam's investment products, and the number of retail shareholder accounts or sales.

Q4 2009 vs Q4 2008

Fee and other income in 2009 increased US$54 million as a result of an increase in performance fees and higher average AUM. Average AUM increased 3% from 2008 due mainly to higher average equity market levels partly offset by net redemptions in 2009. Average mutual fund assets were 54% of AUM, compared to 52% in 2008. The shift in asset mix and higher average AUM and performance fees resulted in a 31% increase in fee income.

Q4 2009 vs Q4 2008 (twelve months)

Fee and other income in 2009 decreased US$230 million as a result of lower average AUM. Average AUM decreased 28% mainly due to lower average equity market levels and net redemptions in 2009. Average mutual fund assets were 52% of AUM, compared to 56% in 2008. The shift in asset mix and lower average AUM resulted in a 24% decrease in fee income.

Q4 2009 vs Q3 2009

Fee and other income in the fourth quarter increased US$49 million, an increase of 27% as a result of an increase in performance fees and a 7% increase in average mutual fund assets due to higher average equity market levels during the fourth quarter of 2009.

Net income

Q4 2009 vs Q4 2008

Net income was a charge of US$35 million in 2009, a decrease of US$20 million. This decline is largely due to adjustments related to future tax assets recorded in the fourth quarter of 2008 and higher incentive compensation in the fourth quarter of 2009 due to improving investment performance, offset by higher performance fees and mark-to-market adjustments on seed portfolios in the fourth quarter of 2009.

Q4 2009 vs Q4 2008 (twelve months)

Net income was a charge of US$80 million in 2009, a decrease of US$61 million due to lower revenues on lower AUM. The decline in financial market values since 2008 has negatively impacted investment management fees, service fees and investment income.

Q4 2009 vs Q3 2009

Net income decreased from the third quarter due to a dilution gain recorded in the third quarter of US$17 million related to the vesting of certain Putnam equity awards, higher incentive compensation in the fourth quarter as a result of improving investment performance, and net restructuring charges of US$10 million stemming from a 5% reduction in Putnam's global workforce, which more than offset higher fee revenue.

Assets under management

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Prime money market AUM have been excluded in the following table to facilitate period to period comparison.

Assets under management

	For the three months ended			For the twelve months ended	
(US $ millions)	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	Dec. 31 2009	Dec. 31 2008
Beginning assets	$ 113,597	$ 102,785	$ 136,591	$ 105,697	$ 178,515
Sales (1)	5,568	4,476	5,221	18,410	28,519
Redemptions	(6,999)	(6,279)	(12,676)	(33,151)	(45,687)
Net asset flows	(1,431)	(1,803)	(7,455)	(14,741)	(17,168)
Impact of market/performance	2,780	12,615	(23,439)	23,990	(55,650)
Ending assets	$ 114,946	$ 113,597	$ 105,697	$ 114,946	$ 105,697
Average assets under management	$ 114,443	$ 108,422	$ 110,973	$ 106,092	$ 147,226

(1) Includes dividends reinvested.

Q4 2009 vs Q4 2008

Average AUM in 2009 were US$114.4 billion as follows: mutual funds US$61.9 billion and institutional accounts US$52.5 billion. Average AUM increased by US$3.5 billion primarily due to a decline in net redemptions and the positive impact of market/performance.

Q4 2009 vs Q4 2008 (twelve months)

Average AUM in 2009 were US$106.1 billion as follows: mutual funds US$55.7 billion and institutional accounts US$50.4 billion. The decrease of US$41.1 billion from 2008 is mainly due to the negative impact of the market in the last quarter of 2008 and the first quarter of 2009, somewhat offset by a decline in net redemptions and improving investment performance.

Q4 2009 vs Q3 2009

Average AUM increased US$6.0 billion from the third quarter. There was also a shift in average mix from the prior quarter, with mutual funds accounting for 54% of average assets versus 53% in the third quarter of 2009. AUM increased by US$1.3 billion from September 30, 2009 due to market/performance of US$2.7 billion, partially offset by net redemptions of US$1.4 billion. Fourth quarter net redemptions included US$1.5 billion of net redemptions in institutional accounts, and US$0.1 billion of net sales in mutual funds, continuing a trend of improving mutual fund flows throughout 2009.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2009, Putnam undertook many initiatives which have improved its competitiveness and positions Putnam for growth in the coming years, including:

- A restructuring of Putnam's equity investment division to increase individual fund manager accountability and responsibility, and realign manager and analyst incentives to reward those who deliver top-quartile results for clients. One hundred percent of Putnam's U.S. large-cap equity funds outperformed their Lipper categories for the year ended December 31, 2009.
- The launching of the industry's first suite of target absolute return mutual funds. Putnam Absolute Return Funds surpassed $1 billion in assets – making the funds among the best selling in their category. Putnam's RetirementReady® Funds have also been redesigned to incorporate absolute return strategies as a way to more effectively minimize volatility.
- Putnam also launched ten new mutual funds in 2009, including Putnam Spectrum Funds, which invest in the securities of leveraged companies. The actively managed Putnam Global Sector Funds, which target stocks in dynamic sectors across global markets, cover nine sectors across the MSCI World Index and can be combined to create a highly customized portfolio.
- A recommitment to the retirement market, both by launching a new defined-contribution platform for plan sponsors and by proposing a sweeping retirement reform agenda based on strengthening 401(k)s to reliably deliver lifelong income to workers. Putnam's 401(k) offering serves clients in the small, midsize, and large market segments, leveraging the recordkeeping strength of an affiliated company, FASCore, LLC, the fourth-largest recordkeeper in the retirement services industry. During 2009, Putnam began to service plans on the new platform and is building a solid pipeline for 2010.
- Aligning its business and cost structure to respond to changes in the financial markets and the impact to assets under management by reducing its global workforce in 2009 by approximately 22%. Putnam also reduced expenditures in areas such as travel and entertainment and contractor and professional fees, while making investments in certain critical initiatives such as improving investment performance, advertising, and its Web presence.
- Dedicating distribution leadership and resources to the registered investment advisor (RIA) market and realigning institutional distribution and service under one global head to drive focused growth.
- Implementing significant changes to the management fees on Putnam's retail mutual funds, designed to provide investors with a host of immediate and long-term pricing benefits, and to make Putnam's product lineup more competitive in the marketplace.
- Launching new print and online advertising campaigns, entitled, "This is Putnam today," which showcases a series of large-cap equity and other managers and the strong performances they have generated over the past year.

Putnam was ranked #1 out of 61 fund families in the 2010 annual Lipper/Barron's Fund Families Survey based on its funds' performance during 2009. This survey ranks mutual fund companies based on their performance across a variety of asset types, both foreign and domestic. Putnam's strong move in the rankings underscores the firm's investment platform improvements designed to bolster long-term performance.

Putnam has a broad investment management platform and a strong client base. As of December 31, 2009, Putnam managed 104 mutual funds diversified by style, asset class, and geography. Putnam's experienced retail wholesaling team covers a broad range of geographic and product markets and distribution channels in the United States, maintaining more than 150,000 financial advisor relationships representing approximately 5.8 million shareholder accounts as of December 31, 2009.

These initiatives to strengthen Putnam's investment management capability, products and distribution platforms require investment in compensation and other expenses in the near term. However, while mindful that the impact of market forces and investor flows are not easily predictable, Putnam management believes that all of the actions taken in 2009 and anticipated in 2010, combined with the strong base of existing business, position Putnam well for future growth and profits.

UNITED STATES CORPORATE

Net income

Q4 2009 vs Q4 2008

Net income was a loss of US$5 million in 2009 compared to a loss of US$10 million in 2008 primarily due to lower income taxes.

Q4 2009 vs Q4 2008 (twelve months)

Net income was a loss of US$2 million in 2009 compared to US$113 million in 2008.

There were two non-recurring items that occurred in the first quarter of 2008. The first item was a gain of US$176 million in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of participating policies. The second item was a US$58 million after-tax charge from the strengthening of policy reserves associated with the additional overhead Financial Services will bear related to the sale of the Healthcare business.

Q4 2009 vs Q3 2009

Net income was a loss of US$5 million compared to net income of US$2 million in the third quarter mainly due to lower investment income and higher income taxes.

DISCONTINUED OPERATIONS (HEALTHCARE)

On April 1, 2008 GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction, GWL&A received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes.

As a result of the sale a gain of US$995 million (US$630 million after-tax) ($649 million after-tax) was recorded in net income from discontinued operations on the Summary of Consolidated Operations. The gain is net of a charge of US$320 million (US$203 million after-tax) as a result of costs associated with the sale.

In accordance with the CICA Handbook, the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company. Net income from discontinued operations, excluding the gain on sale of Healthcare, was US$43 million.

EUROPE

The European segment is comprised of two distinct business units: Insurance & Annuities, with operations in the United Kingdom, Isle of Man, Ireland, and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland.

Insurance & Annuities offers protection and wealth management products including payout annuity products is conducted through Canada Life and its subsidiaries. The Reinsurance business is conducted through Canada Life, London Life, LRG, and their subsidiaries.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.*

BUSINESS PROFILE

INSURANCE & ANNUITIES

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a portfolio of protection and wealth management products and related services mainly in the United Kingdom, Isle of Man, Ireland and Germany.

The core products offered in the United Kingdom are payout annuities, savings and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through IFAs in the United Kingdom and in other selected territories.

The core products offered in Ireland are individual insurance and savings and pension products. These products are distributed through independent brokers and a direct sales force.

The German operation focuses on pension, lifetime guaranteed minimum withdrawal benefit (GMWB) products and individual protection products that are distributed through independent brokers and multi-tied agents.

Canada Life has continued to increase its presence in its defined market segments by focusing on the introduction of new products and services, enhancement of distribution capabilities and intermediary relationships.

REINSURANCE

The Company's reinsurance business is comprised of operations in the United States, Barbados and Ireland.

In the United States, the Company's reinsurance business is carried on through the U.S. branch of Canada Life, through a subsidiary of LRG, and through an indirect subsidiary of GWL&A (Great-West Life & Annuity Company of South Carolina, or GWSC). GWSC was created in 2005 in conjunction with the establishment of a new long-term letter of credit facility to meet the Company's U.S. statutory Regulation XXX reserve requirements relating to its life reinsurance business.

In Barbados, the Company's reinsurance business is carried on primarily through a London Life branch and subsidiaries of LRG.

In Ireland, the Company's reinsurance business is carried on through a subsidiary of LRG, and through a subsidiary of Canada Life (Canada Life International Re Limited).

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between affiliated companies. These transactions are undertaken in order to better manage insurance risks relating to retention, volatility and concentration as well as to facilitate capital management for the Company and its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business segments.

Market Overview

Products and Services

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

Insurance & Annuities

Market Position

U.K. and Isle of Man
- Among the top 20 life insurance companies operating in U.K.
- The market leader of the group life market, with 33% share
- Second in the group income protection market with 21% share
- Among the top 4 offshore life companies in the U.K. market, with over 10% market share
- Among the top insurers in payout annuities, with over 5% market share
- Among the top ten in the onshore unit-linked single premium bond market

Ireland
- 5% of Irish life assurance market
- Among the top six insurers by new business market share

Germany
- Among the top two in the broker unit-linked market
- Among the top eight in the overall unit-linked market
- 1% market share in the German market

Products and Services

Wealth management
- Payout annuities, including enhanced annuities
- Savings
- Pensions
- Variable annuities
- Variable annuity GMWB products

Group Insurance
- Life insurance
- Income protection (disability)
- Critical illness

Individual Insurance
- Life insurance
- Disability
- Critical illness

Distribution

U.K. and Isle of Man
- Independent financial advisors
- Employee benefit consultants

Ireland
- Independent brokers
- Direct sales force

Germany
- Independent brokers
- Multi-tied agents

Reinsurance

Market Position
- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity business

Products and Services

Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance

Property & Casualty
- Catastrophe retrocession

Annuity
- Fixed annuity
- Payout annuity

Distribution
- Independent reinsurance brokers
- Direct placements

Reference to GMWB refers to lifetime guaranteed minimum withdrawal benefit products.

Competitive Conditions

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several product-focused markets with particular strength in the payout annuity, onshore/offshore savings, and group life and income protection markets. The Company increased its market share during the year in all markets except payout annuities where there was a small reduction in market share. The Company remains competitive in the payout annuity market and continues to sell the majority of its products through IFAs. In order to compete with other products carried by these independent advisers, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Ireland

The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. Larger companies maintained a significant share of the market. The market continued to see a significant decline in new business during 2009, leading to more aggressive pricing in the market to compete for available business.

The Company operates in all segments of the market, and focuses on higher margin products including pensions and single premium savings business. Canada Life is the sixth largest life insurance operation in Ireland as measured by new business market share. The Company continues to invest in product development infrastructure, distribution capability and systems which are critical to maximize ongoing sales growth and retention of in-force business.

Germany

The German economy came out of recession during the second half of 2009. Also during the year, the German government brought in subsidized short working measures which helped limit the increase in unemployment. However, there was no noticeable recovery in the Life and Pensions market as consumers were still reluctant to invest in equity-based products given the market volatility.

Despite the market aversion, Canada Life is still regarded highly by the German broker market. Recent surveys carried out by a broker organization (Asscompact) rank us as the top Anglo-Saxon insurer operating in the German serious illness and disability insurance categories and top 5 in certain pension categories.

Reinsurance

In the United States life reinsurance market, insurer asset losses in late 2008 and early 2009 continued to fuel the demand for reinsurance solutions that emphasize capital relief, while lower life insurance sales led to reduced volumes of traditional reinsurance. With banks exiting the alternative solution market and raising the cost of letters of credit, reinsurers focused on offering risk based capital solutions rather than providing reserve relief. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance helped generate significant sales opportunities.

In Europe, demand for capital relief transactions was also dominant and demand for longevity reinsurance remained strong in the U.K., however the uncertainty surrounding evolving proposals for a new regulatory landscape under Solvency II makes it difficult to commit to longer term transactions.

Property insurers/reinsurers replenished their balance sheets after both weather and asset related losses in 2008, but demand for Worldwide Property retrocession coverage remained strong. After an initial period of hardening rates, pricing softened as the year progressed, largely due to a lack of natural catastrophes, improved asset values and the resumption of access to the capital markets.

2009 Developments

- Canada Life won the prestigious 5 star service award from Independent Financial Advisers in the U.K. in the investment products category recognizing its service quality to their clients. In addition, Canada Life won the Best Offshore Protection Product and Best Advisor Support and Customer Service at the 2009 International Advisor Offshore Awards.
- During the year, Germany launched a variable annuity GMWB product and a single premium product marketed to high net worth clients through multi-tied agents.
- The Company completed cost optimization initiatives within certain segments of its operations in Europe to align the cost base to the lower levels of activity.
- The Company strengthened the Canada Life brand through an advertising campaign that publicized our brand as well as our financial strength and this has successfully bolstered our presence in the Irish market place.

Selected consolidated financial information – Europe

	As at or for the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	Dec. 31 2009	Dec. 31 2008
Premiums and deposits	$ 2,298	$ 2,156	$ 2,723	$ 9,731	$ 23,114
Sales – Insurance & Annuities	990	815	1,349	3,976	5,004
Fee and other income	158	182	178	661	648
Net income – common shareholders	165	167	224	529	726
Total assets	$ 43,249	$ 44,513	$ 44,977		
Segregated funds net assets	22,800	22,766	21,854		
Total assets under management	66,049	67,279	66,831		
Other assets under administration (1)	110	122	126		
Total assets under administration	$ 66,159	$ 67,401	$ 66,957		

(1) Other assets under administration includes both retail and institutional assets in which the Company only performs administrative or recordkeeping type services for the end client. In general, fee income is based on the type of services performed per client and does not fluctuate in direct proportion with asset levels.

Net income – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	Dec. 31 2009	Dec. 31 2008
Insurance & Annuities	$ 124	$ 132	$ 169	$ 387	$ 560
Reinsurance	43	38	58	153	186
Corporate	(2)	(3)	(3)	(11)	(20)
Net income	$ 165	$ 167	$ 224	$ 529	$ 726

BUSINESS UNITS – EUROPE

The paragraphs below refer to currency movement. In the fourth quarter, comparing 2009 to 2008, the Canadian dollar strengthened against the euro, the US dollar and the British pound. Net income was negatively impacted by $18 million compared to the fourth quarter of 2008 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders decreased 19% over 2008.

For the full year 2009 compared to 2008 the Canadian dollar strengthened against the British pound partly offset by the strengthening of the euro and the US dollar against the Canadian dollar. Net income was negatively impacted by $24 million compared to 2008 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders decreased 24% over 2008.

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 1,391**	$ 1,168	$ 1,769	**$ 5,588**	$ 6,803
Sales	**990**	815	1,349	**3,976**	5,004
Fee and other income	**149**	175	168	**627**	623
Net income	**124**	132	169	**387**	560

Premiums and deposits

Q4 2009 vs Q4 2008

Premiums and deposits decreased by 21% due to lower net premiums in payout annuity and group insurance products in the U.K. reflecting the downturn in the U.K. economy and currency movement. The decrease was partly offset by higher sales of pensions in Ireland, the variable annuity GMWB product in Germany and savings products in Isle of Man.

Q4 2009 vs Q4 2008 (twelve months)

Premiums and deposits decreased by 18% mainly due to lower sales of savings products particularly in the Isle of Man and Ireland, lower net premiums in payout annuity and group insurance products in the U.K. and currency movement. The launch of the variable annuity GMWB product in Germany partly offset the declines.

Q4 2009 vs Q3 2009

Premiums and deposits increased by 19% reflecting a gradual increase in sales of pensions and savings products particularly in the Isle of Man and Ireland.

Sales

Q4 2009 vs Q4 2008

Sales in 2009 decreased by 27% primarily due to lower sales of payout annuity products in the U.K. and currency movement. The decrease was partly offset by higher sales of pensions products in Ireland and variable annuity GMWB product in Germany.

Q4 2009 vs Q4 2008 (twelve months)

Sales in 2009 decreased by 21% primarily due to lower sales of payout annuities in the U.K. and savings products particularly in the Isle of Man and Ireland and currency movement. The decrease was partly offset by higher sales in Ireland's pensions and Germany's variable annuities GMWB products.

Q4 2009 vs Q3 2009

Sales in the fourth quarter increased by 21% due to higher sales of savings products particularly in the Isle of Man as well as higher pension sales in Ireland, partly offset by currency movement.

Fee and other income

Q4 2009 vs Q4 2008

Fee and other income in 2009 decreased 11% primarily due to lower fees in Ireland and currency movement, partly offset by increases in the U.K. and Germany due to growth in average AUM and volume growth.

Q4 2009 vs Q4 2008 (twelve months)

Fee and other income in 2009 increased by $4 million primarily due to higher surrender charges in the U.K., partly offset by lower fees in Ireland and currency movement.

Q4 2009 vs Q3 2009

Fee and other income in the fourth quarter declined by 15% due to the high level of surrender charges in the U.K. in the third quarter and lower fees in Ireland in the fourth quarter, partly offset by higher fees in Germany due to volume growth.

Net income

Q4 2009 vs Q4 2008

Net income decreased 27% from 2008. In 2009, net income included an additional charge for future credit losses in actuarial liabilities of $41 million after-tax as a result of credit rating downgrade activity. In addition, new business and trading gains, including the sale of certain perpetual U.K. government bonds, contributed to net income. Excluding these items, net income declined primarily due to lower mortality gains in the U.K. group insurance operations, strengthening of non-credit related actuarial reserves, lower fee income in Ireland's operations and the impact of currency movements. These decreases were partly offset by higher investment gains as well as improved mortality gains in the U.K. payout annuity business. The effective tax rate in Europe was impacted favourably by the resolution of income tax audit issues, income emerging from lower taxed jurisdictions and other income not subject to tax. The benefit from resolving income tax audit issues will fluctuate from year to year.

Q4 2009 vs Q4 2008 (twelve months)

Net income for the year decreased 31% from 2008. In 2009, net income included $335 million after-tax charges for future credit losses in actuarial liabilities and investment impairment charges of $13 million. The 2008 results included investment impairment charges of $47 million after-tax. The decrease in income in 2009

reflects the challenging market environment, especially earlier in the year, which impacted wealth management fees, group insurance results and investment gains, including additional charges for future credit losses in actuarial reserves. The results were further impacted by unfavourable currency movement. Partly offsetting the decrease in income were new business and trading gains, and a reduction in interest rate mismatch reserves. The effective tax rate in Europe was impacted favourably by the resolution of income tax audit issues, income emerging from lower taxed jurisdictions and other income not subject to tax. The benefit from resolving income tax audit issues will fluctuate from year to year.

Q4 2009 vs Q3 2009

Net income decreased by 6% from the third quarter, primarily due to lower fee income in Ireland's operations, strengthening of non-credit related actuarial reserves, reduced mortality gains in the U.K. group insurance and the impact of currency movement. These decreases were partly offset by improved mortality in U.K. payout annuity business, morbidity gains in the U.K. group insurance business and higher investment gains.

Outlook – Insurance & Annuities

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2010, the Company's focus is to preserve and strengthen our market positions in the U.K., Ireland and Germany by looking for further opportunities to capitalize on our core businesses and to expand on our distribution capabilities. We will continue our commitment to expense management and quality thereby beneficially positioning ourselves for the challenges of growing a profitable business.

United Kingdom/Isle of Man – Despite the economic slowdown, the Company expects to maintain its market positions in each of the group insurance, payout annuities and wealth management businesses. IFAs will remain the key distribution focus and we are committed to developing our relationships with IFAs in 2010 to reinforce our strong market position.

The Company expects the positive outlook for the payout annuity business to be positive as markets continue to stabilize and investment opportunities present themselves to support the payout annuity new business. In the single premium investment market, the Company expects to maintain its presence in the both the onshore and offshore segments and continue to improve its market position, focusing on IFAs as its key distribution pipeline.

The Company's overall outlook in the group protection businesses is more cautious. However, the focus is maintaining the dominant position in this segment. The Company expects the weak economic condition within the U.K. to continue to affect employers as a result of which its group operations are likely to experience a difficult period in 2010.

Ireland – Given the challenging economic environment, the Company is cautious on the overall outlook. Customers may remain reluctant to invest in the current environment. Accordingly, cost containment will be critically important to delivering strong financial results. This will be achieved by the Company's commitment to expense management.

The Company will continue to leverage its strong presence to grow in the pensions market in 2010. The emphasis in 2010 will be on delivering innovative products to the market while growing the Company's direct sales force.

Germany – The most recent analysis of the market indicates that independent intermediaries are expected to maintain their share of distribution. The Company will continue to focus on this distribution channel but will concurrently look for niche opportunities in multi-tied agent distribution networks including sales of the new high net worth product.

The possible ending of the government program of subsidizing short working arrangements may sustain uncertainty for employees and employers resulting in further deferrals of pension purchasing decisions past 2010, thereby stalling the pension market recovery.

REINSURANCE

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2009	Sept. 30 2009	Dec. 31 2008	**Dec. 31 2009**	Dec. 31 2008
Premiums and deposits	**$ 907**	$ 988	$ 954	**$ 4,143**	$ 16,311
Fee and other income	**9**	7	10	**34**	25
Net income	**43**	38	58	**153**	186

Premiums and deposits

Q4 2009 vs Q4 2008

Premiums and deposits decreased $47 million in 2009 as a result of the commutation of reinsurance contracts and currency movement, partly offset by volume increases.

Q4 2009 vs Q4 2008 (twelve months)

Premiums and deposits decreased by $12.2 billion in 2009 primarily due to assumed business from the Standard Life transaction in 2008 and commutation of reinsurance contracts. This was partly offset by new business and higher volumes in 2009, as well as currency movement.

Q4 2009 vs Q3 2009

Premiums and deposits decreased $81 million from the prior quarter primarily due to commutation of reinsurance contracts and currency movement.

Fee and other income

Q4 2009 vs Q4 2008

Fee and other income was $1 million lower than 2008 primarily due to currency movement.

Q4 2009 vs Q4 2008 (twelve months)

Fee and other income in 2009 increased by $9 million primarily due to an increase in new business and currency movement.

Q4 2009 vs Q3 2009

Fee and other income in the fourth quarter increased by $2 million primarily due to new business.

Net income

Q4 2009 vs Q4 2008

Net income decreased $15 million from 2008. Net income in 2009 included $14 million after-tax of investment impairment charges, and charges for future credit losses in actuarial liabilities of $8 million after-tax. In addition, new business and trading gains contributed to net income in 2009. Excluding these items, net income increased due to the favourable settlement of a reinsurance contract and improved mortality experience. These increases were partly offset by the strengthening of non-credit related actuarial liabilities, lower investment gains and currency movement. The effective tax rate in reinsurance was impacted by the strengthening of actuarial reserves in a higher taxed jurisdiction and release of tax reserves due to favourable developments.

Q4 2009 vs Q4 2008 (twelve months)

Net income decreased $33 million from 2008. In 2009, net income included after-tax investment impairment charges of $12 million compared to $7 million in 2008. Also in 2009, net income included $113 million of after-tax charges for future credit losses in actuarial liabilities. Also, a reduction in interest rate mismatch reserves as well as new business and trading gains contributed to net income in 2009. Excluding the impact of these items, net income increased due to the settlement of certain large reinsurance treaties, new reinsurance transactions, improved mortality experience, higher new business gain and currency movement. These increases were partly offset by lower investment gains and non-credit related strengthening of actuarial reserves. The effective tax rate in reinsurance was impacted by the strengthening of actuarial liabilities in a higher taxed jurisdiction and release of tax reserves due to favourable developments.

Q4 2009 vs Q3 2009

Net income in the fourth quarter increased $5 million, primarily due to improved mortality experience, lower new business strain and the impact of the review of tax related reserves. These increases were partly offset by strengthening of non-credit related actuarial reserves, investment impairment charges and the settlement of a large reinsurance contract in the third quarter.

OUTLOOK – REINSURANCE

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is expected to hold steady in 2010 although a shift from capital focused solutions back to traditional mortality reinsurance could begin if asset values continue to improve and underlying life insurance sales continue to rebound.

In Europe, Solvency II is the key to determine what business will be attractive in 2010 and beyond. The Reinsurance operation is preparing to help clients and affiliated companies meet the potential capital challenges and business opportunities coming out of these regulatory changes.

Worldwide property retrocession pricing is expected to continue to soften in 2010 in the absence of a major natural catastrophe insured loss. Both hedge fund capacity and catastrophe bond issuance are expected to increase and a number of clients have begun to or plan to retain more of the risk in their portfolios.

EUROPE CORPORATE

The Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the non-core international businesses.

Net income

Q4 2009 vs Q4 2008

Net income for the quarter was a loss of $2 million, compared to a loss of $3 million in 2008.

Q4 2009 vs Q4 2008 (twelve months)

Net income for 2009 was a loss of $11 million compared to a loss of $20 million in 2008. The change is due to two non-recurring items in 2008.

Q4 2009 vs Q3 2009

Net income in the fourth quarter was a loss of $2 million, compared to a loss of $3 million in the third quarter.

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

Q4 2009 vs Q4 2008

Net income in 2009 was a loss of $4 million compared to a loss of $9 million in 2008. The increase is a result of currency movement on certain foreign currency denominated liabilities in 2009 and a release of a tax provision in 2009. The increase was partly offset by an increase in withholding tax in 2009.

Q4 2009 vs Q4 2008 (twelve months)

Net income in 2009 was a loss of $13 million compared to a loss of $20 million in 2008. The increase is primarily due to the same reasons as the in quarter period compared to 2008.

Q4 2009 vs Q3 2009

Net income decreased by $2 million from a loss of $2 million in the third quarter. The decrease is primarily a result of currency movement on certain foreign currency denominated liabilities, partly offset by a release of a tax provision in the fourth quarter.

Other Information

Selected Annual Information

(in $ millions, except per share amounts)	Years ended December 31 2009	2008	2007
Total revenue [1]	$ 30,541	$ 33,932	$ 25,923
Net income – common shareholders			
Net income – continuing operations – adjusted	$ 1,627	$ 2,018	$ 1,950
Adjustments after tax	–	(665)	(97)
Net income – continuing operations	1,627	704	1,853
Net income	1,627	1,396	2,056
Net income per common share			
Basic – adjusted – continuing operations	$ 1.722	$ 2.255	$ 2.185
Basic – continuing operations	1.722	0.787	2.076
Diluted – continuing operations	1.719	0.783	2.061
Basic – adjusted	1.722	2.303	2.413
Basic	1.722	1.560	2.304
Diluted	1.719	1.553	2.287
Total assets [1]			
General fund assets	$ 128,369	$ 130,074	$ 118,194
Segregated funds net assets	87,495	77,748	89,181
Proprietary mutual funds and institutional net assets [2]	123,504	131,122	179,162
Total assets under management	339,368	338,944	386,537
Other assets under administration	119,207	103,015	109,626
Total assets under administration	458,575	441,959	496,163
Total general fund liabilities [1]	$ 112,252	$ 113,104	$ 103,439
Dividends paid per share			
Series D First Preferred	$ 1.1750	$ 1.1750	$ 1.1750
Series E First Preferred [3]	1.2000	1.2000	1.2000
Series F First Preferred	1.4750	1.4750	1.4750
Series G First Preferred	1.3000	1.3000	1.3000
Series H First Preferred	1.21252	1.21252	1.21252
Series I First Preferred	1.1250	1.1250	1.1250
Series J First Preferred [4]	1.63459	–	–
Series L First Preferred [5]	0.34829	–	–
Common	1.230	1.200	1.060

(1) Continuing operations

(2) Excludes Putnam Prime Money Market Fund

(3) The Series E First Preferred Shares were redeemed on December 31, 2009

(4) The Series J First Preferred Shares were issued in Novemer of 2008. The first dividend payment was made on March 31, 2009 in the amount of $0.50959 per share which included accrued dividends for 2008. Regular quarterly dividend payments are $0.375 per share.

(5) The Series L First Preferred Shares were issued on October 2, 2009. The dividend on December 31, 2009 was a partial, initial dividend payment. Regular quarterly dividend payments are $0.353125 per share.

Quaterly financial information

(in $ millions, except per share amounts)	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Total revenue (1)	$ 6,001	$ 10,389	$ 9,218	$ 4,933	$ 6,580	$ 3,971	$ 5,382	$ 17,999
Common Shareholders								
Net income								
Total	443	445	413	326	(907)	436	1,213	654
Basic – per share	0.468	0.471	0.437	0.345	(1.011)	0.487	1.356	0.732
Diluted – per share	0.467	0.470	0.437	0.345	(1.009)	0.485	1.350	0.728
Net income – adjusted (2)								
Total	443	445	413	326	525	436	564	536
Basic – per share	0.468	0.471	0.437	0.345	0.586	0.487	0.630	0.600
Diluted – per share	0.467	0.470	0.437	0.345	0.585	0.485	0.627	0.596
Net income – adjusted continuing operations (2)								
Total	443	445	413	326	525	436	564	493
Basic – per share	0.468	0.471	0.437	0.345	0.586	0.487	0.630	0.552
Diluted – per share	0.467	0.470	0.437	0.345	0.585	0.485	0.627	0.548

(1) Continuing operations

(2) Net income – adjusted is presented as a non-GAAP financial measure of earnings performance before certain non-recurring adjustments. Refer to "Non-GAAP Financial Measures" section of this report.

	Total	per share Basic	per share Diluted
Adjustments to net income – common shareholders:			
2008 Q4: Goodwill and intangible assets impairment	$ (1,353)	$ (1.508)	$ (1.505)
Valuation allowance, income tax	(34)	(0.038)	(0.038)
Restructuring costs	(45)	(0.051)	(0.051)
Q2: Gain realized from the sale of GWL&A health care business	649	0.726	0.723
Q1: Gain realized in connection with the termination of a long standing assumption reinsurance agreement and reserve strengthening of GWL&A's continuing operations.	118	0.132	0.132

Summary of Quarterly Results

Lifeco's net income attributable to common shareholders was $443 million for the fourth quarter of 2009 compared to a charge of $907 million reported a year ago. On a per share basis, this represents $0.468 per common share ($0.467 diluted) for the fourth quarter of 2009 compared to a charge of $1.011 per common share ($1.009 diluted) a year ago.

Total revenue for the fourth quarter of 2009 was $6,001 million and was comprised of premium income of $4,324 million, regular net investment income of $1,461 million, change in fair value of held for trading assets of $(549) million, and fee and other income of $765 million. Total revenue for the fourth quarter of 2008 was $6,580 million, comprised of premium income of $4,782 million, regular net investment income of $1,423 million, change in fair value of held for trading assets of $(368) million and fee and other income of $743 million.

Total revenue in 2009 increased mainly due to the increase in the fair value of held for trading assets. The Standard Life transaction increased revenue premiums in the first quarter of 2008 by $12.5 billion.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2009, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for Lifeco. All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of Lifeco's internal control over financial reporting based on the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2009, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

There have been no changes in the Company's internal control over financial reporting during the period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Transactions with Related Parties

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2009 the Company held $35 million ($36 million in 2008) of debentures issued by IGM.

During 2009, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $147 million from IGM ($144 million in 2008). Great-West Life, London Life and Canada Life sold residential mortgages of $2 million ($3 million in 2008) to segregated funds maintained by Great-West Life and $98 million ($66 million in 2008) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

Segregated and Mutual Funds Deposits and Self-funded Premium Equivalents (ASO Contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds, mutual funds or the claims payments related to administrative services only (ASO) group health contracts. However, the Company does earn fee and other income related to these contracts. Segregated funds, mutual funds and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Additional information relating to Lifeco, including Lifeco's most recent financial statements, CEO/CFO certification and Annual Information Form are available at **www.sedar.com**.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of independent directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of each of The Great-West Life Assurance Company and Great-West Life & Annuity Insurance Company, appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

D. Allen Loney
President and
Chief Executive Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

February 11, 2010

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2009	2008
Income		
Premium income	$ 18,033	$ 30,007
Net investment income (note 4)		
Regular net investment income	6,179	5,962
Changes in fair value on held for trading assets	3,490	(5,161)
Total net investment income	9,669	801
Fee and other income	2,839	3,124
	30,541	33,932
Benefits and expenses		
Policyholder benefits	16,568	16,784
Policyholder dividends and experience refunds	1,479	1,348
Change in actuarial liabilities	5,762	8,642
Total paid or credited to policyholders	23,809	26,774
Commissions	1,370	1,342
Operating expenses	2,600	2,591
Premium taxes	257	223
Financing charges (note 11)	336	296
Amortization of finite life intangible assets	89	83
Restructuring costs (note 3)	–	70
Intangible and goodwill impairment (note 8)	–	2,178
Income from continuing operations before income taxes	2,080	375
Income taxes – current (note 23)	(102)	334
– future (note 23)	447	(612)
Net income from continuing operations before non-controlling interests	1,735	653
Non-controlling interests (note 15)	36	(108)
Net income from continuing operations	1,699	761
Net income from discontinued operations (note 2)	–	692
Net income	1,699	1,453
Perpetual preferred share dividends	72	57
Net income – common shareholders	$ 1,627	$ 1,396
Earnings per common share (note 20)		
Basic	$ 1.722	$ 1.560
Diluted	$ 1.719	$ 1.553

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2009	2008
Assets		
Bonds (note 4)	$ 66,147	$ 66,554
Mortgage loans (note 4)	16,684	17,444
Stocks (note 4)	6,442	5,394
Real estate (note 4)	3,099	3,188
Loans to policyholders	6,957	7,622
Cash and cash equivalents	3,427	2,850
Funds held by ceding insurers	10,839	11,447
Goodwill (note 8)	5,406	5,425
Intangible assets (note 8)	3,238	3,523
Other assets (note 9)	6,130	6,627
Total assets	$ 128,369	$ 130,074
Liabilities		
Policy liabilities (note 10)		
Actuarial liabilities	$ 98,059	$ 97,895
Provision for claims	1,308	1,466
Provision for policyholder dividends	606	630
Provision for experience rating refunds	317	310
Policyholder funds	2,361	2,326
	102,651	102,627
Debentures and other debt instruments (note 12)	4,142	3,821
Funds held under reinsurance contracts	186	192
Other liabilities (note 13)	4,608	5,969
Repurchase agreements	532	334
Deferred net realized gains	133	161
	112,252	113,104
Preferred shares (note 16)	203	752
Capital trust securities and debentures (note 14)	540	658
Non-controlling interests (note 15)		
Participating account surplus in subsidiaries	2,004	2,012
Preferred shares issued by subsidiaries	157	157
Perpetual preferred shares issued by subsidiaries	147	150
Non-controlling interests in capital stock and surplus	63	13
Share capital and surplus		
Share capital (note 16)		
Perpetual preferred shares	1,497	1,329
Common shares	5,751	5,736
Accumulated surplus	7,367	6,906
Accumulated other comprehensive loss (note 21)	(1,664)	(787)
Contributed surplus	52	44
	13,003	13,228
Total liabilities, share capital and surplus	$ 128,369	$ 130,074

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2009	2008
Accumulated surplus		
Balance, beginning of year	$ 6,906	$ 6,599
Net income	1,699	1,453
Share issue costs (note 16)	(4)	(21)
Repatriation of Canada Life seed capital from participating policyholder account (note 15)	–	5
Dividends to shareholders		
Perpetual preferred shareholders	(72)	(57)
Common shareholders	(1,162)	(1,073)
Balance, end of year	$ 7,367	$ 6,906
Accumulated other comprehensive loss, net of income taxes (note 21)		
Balance, beginning of year	$ (787)	$ (1,533)
Other comprehensive income (loss)	(877)	746
Balance, end of year	$ (1,664)	$ (787)
Contributed surplus		
Balance, beginning of year	$ 44	$ 34
Stock option expense		
Current year expense (note 18)	8	11
Exercised	–	(1)
Balance, end of year	$ 52	$ 44

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2009	2008
Net income	$ 1,699	$ 1,453
Other comprehensive income (loss), net of income taxes		
Unrealized foreign exchange gains (losses) on translation of foreign operations	(1,069)	1,196
Unrealized gains (losses) on available for sale assets	68	(171)
Realized (gains) losses on available for sale assets	(46)	(39)
Unrealized gains (losses) on cash flow hedges	145	(209)
Realized (gains) losses on cash flow hedges	1	(1)
Non-controlling interests	24	(30)
	(877)	746
Comprehensive income	$ 822	$ 2,199

Income tax (expense) benefit included in other comprehensive income

For the years ended December 31	2009	2008
Unrealized foreign exchange gains (losses) on translation of foreign operations	$ 4	$ (1)
Unrealized gains (losses) on available for sale assets	(38)	87
Realized (gains) losses on available for sale assets	13	14
Unrealized gains (losses) on cash flow hedges	(78)	113
Realized (gains) losses on cash flow hedges	–	1
Non-controlling interests	3	(2)
	$ (96)	$ 212

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2009	2008
Operations		
Net income	$ 1,699	$ 1,453
Adjustments:		
Change in policy liabilities	5,612	(3,249)
Change in funds held by ceding insurers	436	1,306
Change in funds held under reinsurance contracts	32	50
Change in current income taxes payable	(544)	(397)
Future income tax expense	447	(612)
Gain on disposal of business, after tax (note 2)	–	(649)
Changes in fair value of financial instruments	(3,461)	5,128
Intangible and goodwill impairment (note 8)	–	2,178
Other	(263)	(1,345)
Cash flows from operations	3,958	3,863
Financing Activities		
Issue of common shares	15	1,027
Issue of preferred shares	170	230
Redemption of preferred shares	(574)	–
Partial repayment of five year term facility in subsidiary	–	(198)
Issue of subordinated debentures in subsidiary	–	500
Repayments on credit facility	–	(1,886)
Increase in line of credit in subsidiary	171	118
Issue of debentures	200	–
Repayment of debentures and other debt instruments	(2)	(194)
Share issue costs	(4)	(21)
Dividends paid	(1,234)	(1,130)
	(1,258)	(1,554)
Investment Activities		
Bond sales and maturities	19,727	17,669
Mortgage loan repayments	1,901	1,952
Stock sales	2,639	2,201
Real estate sales	11	84
Change in loans to policyholders	(78)	(329)
Change in repurchase agreements	330	33
Acquisition of intangible assets (note 8)	(31)	(20)
Disposal of business (note 2)	–	1,375
Investment in bonds	(21,776)	(19,300)
Investment in mortgage loans	(1,725)	(3,374)
Investment in stocks	(2,729)	(2,707)
Investment in real estate	(100)	(876)
	(1,831)	(3,292)
Effect of changes in exchange rates on cash and cash equivalents	(292)	157
Increase (decrease) in cash and cash equivalents	577	(826)
Cash and cash equivalents from continuing operations, beginning of year	2,850	3,676
Cash and cash equivalents from continuing operations, end of year	$ 3,427	$ 2,850
Supplementary cash flow information		
Income taxes paid (net of refunds)	$ 369	$ 1,136
Interest paid	$ 342	$ 301

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Great-West Lifeco Inc. (Lifeco or the Company) have been prepared in accordance with Canadian generally accepted accounting principles and include the consolidated accounts of its major operating subsidiary companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam LLC).

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of policy liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post-retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of policy liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact policy liabilities.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. As a result of the adoption of the new requirements, software costs previously included in other assets have been reclassified to intangible assets and amortization on software costs previously included in operating expenses has been reclassified to amortization of finite life intangible assets.

Financial Instruments – Recognition and Measurement

For the year ended December 31, 2009, the Company adopted the amendments that the CICA issued to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The amendments revise the definition of loans and receivables to allow debt securities not quoted in an active market to be classified as loans and receivables. Loans and receivables expected to be sold in the near term are reclassified as held for trading and those that the holder may not recover substantially all of its initial investment, other than because of credit deterioration must be classified as available for sale. Impairments on debt securities classified as loans and receivables will be in accordance with Section 3025 *Impaired Loans*. The amendments require reversal of impairment losses, and permit reclassifications between certain categories in certain circumstances. The amendments did not have a material impact to the financial statements of the Company.

Financial Instrument Disclosures

Effective January 1, 2009, the Company adopted the amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*. Disclosure standards have been expanded to be consistent with new disclosure requirements made under International Financial Reporting Standards (IFRS). The new requirements introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The new requirements are for disclosure only and do not impact the financial results of the Company.

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are either designated or classified as held for trading or classified as available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income (OCI). Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 4).

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Summaries of Consolidated Operations and included in investment income earned.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $164 ($200 in 2008) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds – Held for Trading and Available for Sale

Fair values for bonds classified as held for trading or available for sale are determined with reference to quoted market bid prices primarily provided by third party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its held for trading and available for sale portfolios.

The Company estimates the fair value of bonds not traded in active markets by referring to actively-traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Stocks – Held for Trading and Available for Sale

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its held for trading and available for sale portfolios.

Mortgages and Bonds – Loans and Receivables and Real Estate

Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (AOCI) is reclassified to net investment income. Impairments on available for sale assets are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(c) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Trading Account Assets

Trading account assets consist of investments in Putnam sponsored funds, which are carried at fair value based on the net asset value. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations.

(f) Financial Liabilities

Financial liabilities, other than policy liabilities and certain preferred shares, are classified as other liabilities. Other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Summaries of Consolidated Operations.

(g) Preferred Share Classified as Liabilities

The Company has designated outstanding Preferred Shares Series D and Series E as held for trading in the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. The Company obtains quoted prices in active markets to measure preferred shares classified as liabilities. The Series E Preferred Shares were redeemed on December 31, 2009 (see note 16).

(h) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivative financial instruments used by the Company are summarized in note 24, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by The Office of the Superintendent of Financial Institutions of Canada (OSFI).

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 9 and 13). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately to net investment income.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate swaps and cross-currency swaps are used to hedge cash flows. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item in either net investment income or OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI are recorded in net investment income in the same period the hedged item affects net income. Gains and losses on cash flow hedges are immediately reclassified from OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The ineffective portion of the cash flow hedges during 2009 and the anticipated net gains (losses) reclassified to AOCI within the next twelve months is $3. The maximum time frame for which variable cash flows are hedged is 35 years.

Net investment hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

(i) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(j) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(k) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(l) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of software, customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 10 years, 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the Company is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Indefinite life intangibles

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases is estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

(m) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, policy liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from other insurers.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from management services.

(n) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $40 ($46 in 2008).

(o) Policy Liabilities

Policy liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the policy liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the policy liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Policy liabilities of the Company are discussed in note 10.

(p) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 23).

(q) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(r) Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 19).

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 19).

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(s) Stock Based Compensation

The Company follows the fair value based method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan (see note 18). Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, is transferred to share capital.

(t) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding. The treasury stock method is used for calculating diluted earnings per common share (see note 20).

(u) Geographic Segmentation

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment.

(v) Comparative Figures

Certain of the 2008 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year as a result of the reclassifications in note 1(a) and certain other reclassifications. On the Consolidated Balance Sheets these reclassifications resulted in a decrease to other assets of $151 at December 31, 2008 with a corresponding increase to intangible assets. On the Summaries of Consolidated Operations these reclassifications resulted in a decrease to operating expenses of $31, a decrease to commissions of $11 and an increase to amortization of finite life intangible assets of $42 for the year ended December 31, 2008.

(w) Future Accounting Policies

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has mandated that all Canadian publicly accountable entities are required to transition from Canadian generally accepted accounting principles (GAAP) to IFRS for fiscal years beginning on or after January 1, 2011. Consequently, the Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative information for 2010.

The Company continues to evaluate the financial statement impact of transitioning from Canadian GAAP to IFRS and the related effect on its information systems and processes. Until this effort is complete, the impact of adopting IFRS and the related effects on the Company's consolidated financial statements cannot be reasonably determined.

The IFRS standard that deals with the measurement of insurance contracts, also referred to as Phase II Insurance Contracts, is currently being developed and a final accounting standard is not expected before 2011. As a consequence, the Company will continue to measure insurance liabilities using CALM until such time when a new IFRS standard for insurance contract measurement is issued.

2. Acquisitions and Disposals

(a) On January 19, 2009, PanAgora, a subsidiary of Putnam LLC, sold its equity investment in Union PanAgora Asset Management GmbH to Union Asset Management. Gross proceeds received of approximately U.S. $75 recorded in net investment income resulted in a gain to Putnam LLC of approximately U.S. $33 after taxes and non-controlling interests.

(b) On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $1.4 billion in assets under administration. The financial statements of the Company do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however the Company will earn fee and other income from it.

(c) On April 1, 2008, GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction GWL&A received U.S. $1.5 billion in gross proceeds, and approximately U.S. $750 million representing the amount of equity invested in the health care business was made available for other purposes.

The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan (refer to note 12).

As a result of the sale a net gain of $1,025 ($649 after tax) was recorded in net income from discontinued operations on the Summaries of Consolidated Operations. The gain is net of a charge of $329 ($208 after tax) as a result of costs associated with the sale. In accordance with CICA Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations* the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company.

After tax net income of the health care business presented as discontinued operations on the Summaries of Consolidated Operations for the year ended December 31, 2008 is comprised of the following:

Income	
Premium income	$ 184
Net investment income	11
Fee and other income	164
	359
Gain on sale	1,025
	1,384
Benefits and expenses	
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	151
Other	145
Income from discontinued operations before income taxes	1,088
Income taxes	396
Net income from discontinued operations	$ 692

As a result of the sale of its health care business, GWL&A recognized a charge of $58 after tax relating to the strengthening of reserves in its continuing operations.

As of April 1, 2008 all of the assets and liabilities of operations held for sale have been sold.

3. Restructuring Costs

(a) Following the acquisition of Putnam LLC on August 3, 2007, the Company developed a plan to restructure and exit certain operations of Putnam.

The following details the amount and status of the Putnam LLC restructuring program costs:

	Expected total costs	Amounts utilized – 2007	Amounts utilized – 2008	Amounts utilized – 2009	Changes in foreign exchange rates	Balance December 31, 2009
Compensation costs	$ 133	$ (27)	$ (76)	$ (30)	$ –	$ –
Exiting and consolidating operations	17	(6)	(5)	(6)	(1)	(1)
Eliminating duplicate systems	4	(1)	–	(2)	–	1
	$ 154	$ (34)	$ (81)	$ (38)	$ (1)	$ –

In 2009, the Company largely completed its plan to restructure and exit certain operations. During the fourth quarter of 2009, the Company closed its Franklin, Massachusetts facility and announced a reduction in force of approximately 5% of its global workforce. Part of this reduction in force involved employees among the Company's administration, technology and operations areas.

(b) During the fourth quarter of 2008, the Company expanded its original restructuring plans for its subsidiary Putnam LLC to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and revenues, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of the Company's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are $70 ($58 U.S.) and are reflected in restructuring expenses in the Summaries of Consolidated Operations. The restructuring was largely completed by the end of 2009.

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

2009

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading (1) Designated	Held for trading (1) Classified	Carrying value loans and receivables	Market value loans and receivables	Carrying value non-financial instruments	Market value non-financial instruments	Carrying value
Bonds								
– government	$ 2,607	$ 15,474	$ 796	$ 1,520	$ 1,676	$ –	$ –	$ 20,397
– corporate	2,013	35,129	963	7,645	7,745	–	–	45,750
	4,620	50,603	1,759	9,165	9,421	–	–	66,147
Mortgage loans								
– residential	–	–	–	6,174	6,388	–	–	6,174
– non-residential	–	–	–	10,510	10,503	–	–	10,510
	–	–	–	16,684	16,891	–	–	16,684
Stocks	1,186	4,928	–	–	–	328	389	6,442
Real estate	–	–	–	–	–	3,099	3,053	3,099
	$ 5,806	$ 55,531	$ 1,759	$ 25,849	$ 26,312	$ 3,427	$ 3,442	$ 92,372

2008

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading (1) Designated	Held for trading (1) Classified	Carrying value loans and receivables	Market value loans and receivables	Carrying value non-financial instruments	Market value non-financial instruments	Carrying value
Bonds								
– government	$ 3,594	$ 16,197	$ 836	$ 1,877	$ 1,879	$ –	$ –	$ 22,504
– corporate	2,051	33,319	849	7,831	7,371	–	–	44,050
	5,645	49,516	1,685	9,708	9,250	–	–	66,554
Mortgage loans								
– residential	–	–	–	6,986	7,157	–	–	6,986
– non-residential	–	–	–	10,458	10,414	–	–	10,458
	–	–	–	17,444	17,571	–	–	17,444
Stocks	1,411	3,653	–	–	–	330	326	5,394
Real estate	–	–	–	–	–	3,188	3,053	3,188
	$ 7,056	$ 53,169	$ 1,685	$ 27,152	$ 26,821	$ 3,518	$ 3,379	$ 92,580

(1) Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

During 2008, the Company changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its United States subsidiary GWL&A. The Company concluded that an internal model utilizing asset-backed index spread versus an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2009	2008
Carrying value, beginning of year	$ 330	$ 320
Equity method earnings	17	28
Dividends	(19)	(18)
Carrying value, end of year	$ 328	$ 330
Share of equity, end of year	$ 150	$ 148
Fair value, end of year	$ 389	$ 326

The Company owns 9,205,200 shares of IGM at December 31, 2009 (9,205,897 at December 31, 2008) representing a 3.49% ownership interest (3.51% at December 31, 2008).

(c) Included in portfolio investments are the following:

(i) Impaired investments:

	2009		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 517	$ (278)	$ 239
Available for sale	55	(36)	19
Loans and receivables	151	(81)	70
Total	$ 723	$ (395)	$ 328

	2008		
	Gross amount	Impairment	Carrying amount
Impaired amounts by type [1]			
Held for trading	$ 160	$ (138)	$ 22
Available for sale	18	(17)	1
Loans and receivables	93	(60)	33
Total	$ 271	$ (215)	$ 56

Impaired investments include $57 of capital securities that have deferred coupons on a non-cumulative basis.

(1) Excludes amounts in funds held by ceding insurers of $10 and impairment of $(4) at December 31, 2009 and $15 and $(11) at December 31, 2008

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2009			2008		
	Bonds	Mortgage Loans	Total	Bonds	Mortgage Loans	Total
Balance, beginning of year	$ 31	$ 29	$ 60	$ 34	$ 19	$ 53
Net provision (recovery) for credit losses – in year	20	19	39	–	4	4
Write-offs, net of recoveries	–	(8)	(8)	(9)	2	(7)
Other (including foreign exchange rate changes)	(7)	(3)	(10)	6	4	10
Balance, end of year	$ 44	$ 37	$ 81	$ 31	$ 29	$ 60

The allowance for credit losses is supplemented by the provision for future credit losses included in policy liabilities.

4. Portfolio Investments (cont'd)

(iii) The company holds investments with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. Their carrying value is as follows:

	2009	2008
Bonds	$ 36	$ 15
Bonds with equity conversion features	169	–
Mortgages	1	1
	$ 206	$ 16

(d) Net investment income is comprised of the following:

2009	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 4,122	$ 922	$ 179	$ 184	$ 724	$ 6,131
Net realized gains (losses) *(available for sale)*	65	–	(6)	–	–	59
Net realized gains (losses) *(other classifications)*	3	22	83	–	–	108
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	(14)	–	(14)
Net (provision) recovery for credit losses *(loans and receivables)*	(20)	(19)	–	–	–	(39)
Other income and expenses	–	–	–	–	(66)	(66)
	4,170	925	256	170	658	6,179
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	9	–	–	–	–	9
Net realized/unrealized gains (losses) *(designated held for trading)*	2,500	–	969	–	12	3,481
	2,509	–	969	–	12	3,490
Net Investment income	$ 6,679	$ 925	$ 1,225	$ 170	$ 670	$ 9,669

2008	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 4,158	$ 953	$ 195	$ 170	$ 434	$ 5,910
Net realized gains (losses) *(available for sale)*	59	–	(19)	–	–	40
Net realized gains (losses) *(other classifications)*	30	28	–	–	–	58
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	23	–	23
Net (provision) recovery for credit losses *(loans and receivables)*	–	(4)	–	–	–	(4)
Other income and expenses	–	–	–	–	(65)	(65)
	4,247	977	176	193	369	5,962
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	9	–	–	–	–	9
Net realized/unrealized gains (losses) *(designated held for trading)*	(3,684)	–	(1,689)	–	203	(5,170)
	(3,675)	–	(1,689)	–	203	(5,161)
Net investment income	$ 572	$ 977	$ (1,513)	$ 193	$ 572	$ 801

Investment income earned is comprised of income from investments that are classified or designated as held for trading, classified as available for sale and classified as loans and receivables.

5. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors or the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk:

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2009	2008
Cash and cash equivalents	$ 3,427	$ 2,850
Bonds		
Held for trading	52,362	51,201
Available for sale	4,620	5,645
Amortized cost	9,165	9,708
Mortgage loans	16,684	17,444
Loans to policyholders	6,957	7,622
Other financial assets	14,420	15,004
Derivative assets	682	677
Total balance sheet maximum credit exposure	$ 108,317	$ 110,151

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Derivative assets are reduced by $35 of collateral received in 2009 and increased by $25 of collateral paid in 2008.

(ii) Concentration of Credit Risk:

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

5. Financial Instrument Risk Management (cont'd)

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

2009	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 2,264	$ 1	$ 14	$ 2,279
Canadian provincial and municipal governments	4,917	1,333	55	6,305
U.S. Treasury and other U.S. agencies	240	2,620	758	3,618
Other foreign governments	104	–	5,773	5,877
Government related	778	–	1,372	2,150
Sovereign	783	4	762	1,549
Asset-backed securities	2,636	3,306	851	6,793
Residential mortgage backed securities	46	842	60	948
Banks	2,201	453	2,299	4,953
Other financial institutions	1,021	1,336	1,507	3,864
Basic materials	151	571	198	920
Communications	598	276	473	1,347
Consumer products	1,384	1,351	1,664	4,399
Industrial products/services	516	651	206	1,373
Natural resources	1,000	710	581	2,291
Real estate	559	–	1,216	1,775
Transportations	1,414	585	594	2,593
Utilities	3,008	2,172	2,702	7,882
Miscellaneous	1,489	562	182	2,233
Total long term bonds	25,109	16,773	21,267	63,149
Short term bonds	2,406	455	137	2,998
	$ 27,515	$ 17,228	$ 21,404	$ 66,147

2008	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 1,854	$ 2	$ 11	$ 1,867
Canadian provincial and municipal governments	4,493	1,463	73	6,029
U.S. Treasury and other U.S. agencies	333	3,683	952	4,968
Other foreign governments	163	–	6,691	6,854
Government related	743	–	820	1,563
Sovereign	898	7	834	1,739
Asset-backed securities	2,637	3,730	876	7,243
Residential mortgage backed securities	89	994	73	1,156
Banks	2,065	517	2,488	5,070
Other financial institutions	982	1,115	1,505	3,602
Basic materials	146	532	192	870
Communications	526	310	384	1,220
Consumer products	1,298	1,179	1,627	4,104
Industrial products/services	627	720	638	1,985
Natural resources	842	401	570	1,813
Real estate	497	–	1,148	1,645
Transportations	1,313	522	662	2,497
Utilities	2,710	1,781	2,577	7,068
Miscellaneous	1,351	299	216	1,866
Total long term bonds	23,567	17,255	22,337	63,159
Short term bonds	2,664	448	283	3,395
	$ 26,231	$ 17,703	$ 22,620	$ 66,554

The following table provides details of the carrying value of mortgage loans by geographic location:

	2009			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,695	$ 3,965	$ 6,371	$ 12,031
United States	–	485	1,509	1,994
Europe	–	29	2,630	2,659
Total mortgage loans	**$ 1,695**	**$ 4,479**	**$ 10,510**	**$ 16,684**

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,850	$ 4,524	$ 6,144	$ 12,518
United States	–	576	1,581	2,157
Europe	–	36	2,733	2,769
Total mortgage loans	$ 1,850	$ 5,136	$ 10,458	$ 17,444

(iii) Asset Quality:

Bond Portfolio Quality	2009	2008
AAA	$ 21,754	$ 25,138
AA	10,585	10,765
A	19,332	18,030
BBB	10,113	8,809
BB and lower	1,365	417
	63,149	63,159
Short term bonds	2,998	3,395
Total bonds	**$ 66,147**	$ 66,554

Derivative Portfolio Quality	2009	2008
Over-the-counter contracts (counterparty ratings):		
AAA	$ 5	$ 19
AA	338	165
A	374	468
Total	$ 717	$ 652

(iv) Loans Past Due, But Not Impaired:

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2009	2008
Less than 30 days	$ 45	$ 50
30–90 days	6	4
90 days and greater	9	1
Total	$ 60	$ 55

(v) Performing Securities Subject to Deferred Coupons:

	Payment Resumption Date		
	< 1 year	1 to 2 years	> 2 years
Coupon payment receivable	$ –	$ –	$

5. Financial Instrument Risk Management (cont'd)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.
- Management monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or the capital markets. The Company maintains a $200 committed line of credit with a Canadian chartered bank.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Company's financial liabilities.

		Payments due by period					
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 4,142	$ 376	$ 1	$ 320	$ 1	$ 1	$ 3,443
Preferred share liabilities	199	–	–	–	–	–	199
Capital trust debentures [(1)]	800	–	–	–	–	–	800
Purchase obligations	132	60	37	24	11	–	–
Pension contributions	108	108	–	–	–	–	–
	$ 5,381	$ 544	$ 38	$ 344	$ 12	$ 1	$ 4,442

(1) Payments due have not been reduced to reflect the Company held capital trust securities of $275 principal amount ($279 carrying value).

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. If the assets backing policy liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating policy liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net income. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating policy liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net income.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.

- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows such as long tail cash flows a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched protection against interest rate change is achieved as any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Cash flows from fixed income assets are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.28% (0.19% in 2008). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in policy liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2009	2008
Participating	$ 755	$ 552
Non-participating	1,712	1,208
	$ 2,467	$ 1,760

Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the policy liabilities impacting the shareholder income of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- The effect of an immediate 1% parallel increase in the yield curve would be to increase these policy liabilities by approximately $14 causing a decrease in net income of approximately $12.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these policy liabilities by approximately $300 causing a decrease in net income of approximately $201.

In addition to above, if this change in the yield curve persisted for an extended period the range of the tested scenarios might change. The effect of an immediate 1% parallel decrease or increase in the yield curve persisting for a year would have immaterial additional effects on the reported policy liability.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees consisting of purchasing equity futures, currency forwards, and interest rate swaps. For policies with segregated fund guarantees, the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level.

Some policy liabilities are supported by real estate, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating policy liabilities by approximately $35 causing an increase in net income of approximately $26. A 10% decrease in equity markets would be expected to additionally increase non-participating policy liabilities by approximately $104 causing a decrease in net income of approximately $73.

5. Financial Instrument Risk Management (cont'd)

The best estimate return assumptions for equities are primarily based on long term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating policy liabilities by approximately $344 causing an increase in net income of approximately $250. A 1% decrease in the best estimate assumption would be expected to increase non-participating policy liabilities by approximately $387 causing a decrease in net income of approximately $279.

6. Financial Instruments Fair Value Measurement

In accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, the Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, certain asset-backed securities (ABS) and some over-the-counter derivatives.

Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over the counter derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Assets and Liabilities Measured at Fair Value			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through net income				
Bonds	$ –	$ 51,748	$ 614	$ 52,362
Stocks	4,783	–	145	4,928
Total financial assets at fair value through net income	4,783	51,748	759	57,290
Available for sale financial assets				
Bonds	–	4,553	67	4,620
Stocks	93	1	1	95
Total available for sale financial assets	93	4,554	68	4,715
Other assets – derivatives (1)	–	700	17	717
Total assets measured at fair value	$ 4,876	$ 57,002	$ 844	$ 62,722
Liabilities measured at fair value				
Other liabilities – derivatives	$ –	$ 248	$ 3	$ 251
Preferred shares	203	–	–	203
Total liabilities measured at fair value	$ 203	$ 248	$ 3	$ 454

(1) Excludes collateral received of $35.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value for the year ended December 31, 2009:

	Level 3 Financial Assets and Liabilities					
	Held for trading bonds	Available for sale bonds	Other assets – derivatives	Other liabilities – derivatives	Held for trading stocks	Available for sale stocks
Balance, January 1, 2009	$ 979	$ 68	$ 14	$ –	$ 20	$ 1
Total gains/(losses)						
Included in net income	28	(17)	3	(3)	(2)	–
Included in other comprehensive income	–	24	–	–	–	–
Purchases	9	–	–	–	127	–
Sales	(62)	–	–	–	–	–
Issuances	–	–	–	–	–	–
Settlements	(155)	(13)	–	–	–	–
Transfers in to level 3	43	25	–	–	–	–
Transfers out of level 3	(228)	(20)	–	–	–	–
Balance, December 31, 2009	$ 614	$ 67	$ 17	$ (3)	$ 145	$ 1
Total gains/(losses) for the year included in net income for assets held at December 31, 2009	$ 28	$ (17)	$ (1)	$ –	$ (2)	$ –

7. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $11 ($8 in 2008), in respect of derivative transactions and $595 ($600 in 2008), in respect of reinsurance agreements.

8. Goodwill and Intangible Assets

During the fourth quarter of 2008 a subsidiary in the United States segment, Putnam LLC, recorded a non-cash impairment charge on its indefinite life intangibles of $1,090 ($901 U.S.) and goodwill of $1,088 ($899 U.S.). The after-tax impact of the impairment charge is $1,353 ($1,118 U.S.).

Using estimates of the fair values of brands and trademarks, customer contract related intangibles and goodwill, the fair value was determined to be lower than the carrying amount and as a result an impairment charge was recorded. The impairment charge reflected management's assessment of the impact of the decline of Putnam's assets under management as a result of both negative asset flows and a deterioration of investment market conditions since the acquisition date.

The impairment charge was recorded in the Summaries of Consolidated Operations in the Intangible and goodwill impairment caption. While the entire Putnam goodwill was written off, it is possible that future changes in assumptions may result in the recognition of further impairment losses on the intangibles.

(a) Goodwill

The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

	2009	2008
Balance, beginning of year	$ 5,425	$ 6,295
Changes in foreign exchange rates	(19)	218
Impairment	–	(1,088)
Balance, end of year	$ 5,406	$ 5,425
Canada	$ 3,773	$ 3,772
United States	130	149
Europe	1,503	1,504
	$ 5,406	$ 5,425

8. Goodwill and Intangible Assets (cont'd)

(b) Intangible Assets

The carrying value of intangible assets relating to distribution channels and changes in the carrying value of intangible assets are as follows:

	2009				
	Cost	Accumulated amortization	Changes in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
– Brands and trademarks	$ 662	$ –	$ (13)	$ –	$ 649
– Customer contract related	1,400	–	129	–	1,529
– Shareholder portion of acquired future Participating account profits	354	–	–	–	354
	2,416	–	116	–	2,532
Finite life intangible assets					
– Customer contract related	595	(142)	(12)	–	441
– Distribution channels	126	(24)	(16)	–	86
– Technology	13	(6)	–	–	7
– Property Leases	14	(7)	–	–	7
– Software	367	(202)	–	–	165
	1,115	(381)	(28)	–	706
Total	$ 3,531	$ (381)	$ 88	$ –	$ 3,238

	2008				
	Cost	Accumulated amortization	Changes in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
– Brands and trademarks	$ 773	$ –	$ 39	$ (111)	$ 701
– Customer contract related	2,379	–	320	(979)	1,720
– Shareholder portion of acquired future Participating account profits	354	–	–	–	354
	3,506	–	359	(1,090)	2,775
Finite life intangible assets					
– Customer contract related	563	(108)	23	–	478
– Distribution channels	126	(20)	(9)	–	97
– Technology	13	(3)	1	–	11
– Property Leases	14	(4)	1	–	11
– Software	376	(225)	–	–	151
	1,092	(360)	16	–	748
Total	$ 4,598	$ (360)	$ 375	$ (1,090)	$ 3,523

During 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (note 2), the Company acquired approximately $20 of finite life intangible assets relating to customer contract related intangible assets. During 2009 the Company recognized an additional $31 of finite life intangible assets as part of the finalization of the transaction.

9. Other Assets

Other assets consist of the following:

	2009	2008
Premiums in course of collection	$ 403	$ 502
Interest due and accrued	1,072	1,086
Derivative financial instruments	682	677
Other investment receivables	109	90
Current income taxes	793	320
Future income taxes (note 23)	1,197	1,674
Fixed assets	138	121
Prepaid expenses	80	141
Accounts receivable	761	762
Accrued pension asset (note 19)	335	274
Trading account assets	28	63
Other	532	917
	$ 6,130	$ 6,627

10. Policy Liabilities

(a) Composition of Policy Liabilities and Related Supporting Assets

(i) The composition of policy liabilities is as follows:

	Participating		Non-participating		Total	
	2009	2008	2009	2008	2009	2008
Canada	$ 23,097	$ 21,180	$ 22,460	$ 21,147	$ 45,557	$ 42,327
United States	8,250	9,121	13,790	14,597	22,040	23,718
Europe	1,428	1,665	33,626	34,917	35,054	36,582
Total	$ 32,775	$ 31,966	$ 69,876	$ 70,661	$ 102,651	$ 102,627

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2009					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 14,884	$ 6,316	$ 3,747	$ 286	$ 7,542	$ 32,775
Non-participating						
Canada	14,299	5,327	991	14	1,829	22,460
United States	11,843	1,456	–	–	491	13,790
Europe	16,839	2,314	130	1,770	12,573	33,626
Other	3,880	970	1,041	217	6,607	12,715
Capital and surplus	4,402	301	533	812	6,955	13,003
Total carrying value	$ 66,147	$ 16,684	$ 6,442	$ 3,099	$ 35,997	$ 128,369
Market value	$ 66,403	$ 16,891	$ 6,503	$ 3,053	$ 35,997	$ 128,847

10. Policy Liabilities (cont'd)

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 14,527	$ 6,423	$ 2,808	$ 284	$ 7,924	$ 31,966
Non-participating						
Canada	12,497	5,583	771	9	2,287	21,147
United States	12,467	1,612	–	–	518	14,597
Europe	17,109	2,328	158	1,830	13,492	34,917
Other	2,261	1,042	587	241	10,088	14,219
Capital and surplus	7,693	456	1,070	824	3,185	13,228
Total carrying value	$ 66,554	$ 17,444	$ 5,394	$ 3,188	$ 37,494	$ 130,074
Market value	$ 66,096	$ 17,571	$ 5,390	$ 3,053	$ 37,494	$ 129,604

Cash flows of assets supporting policy liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of policy liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) Changes in Policy Liabilities

The change in policy liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2009	2008	**2009**	2008	**2009**	2008
Balance, beginning of year	**31,966**	30,897	**70,661**	60,975	**102,627**	91,872
Impact of new business	**(14)**	(8)	**4,212**	4,094	**4,198**	4,086
Normal change in force	**2,353**	(792)	**(454)**	(6,640)	**1,899**	(7,432)
Management action and changes in assumptions	**(74)**	43	**(194)**	109	**(268)**	152
Business movement from/to external parties	**–**	–	**(9)**	12,039	**(9)**	12,039
Impact of foreign exchange rate changes	**(1,456)**	1,826	**(4,340)**	84	**(5,796)**	1,910
Balance, end of year	**$ 32,775**	$ 31,966	**$ 69,876**	$ 70,661	**$ 102,651**	$ 102,627

Under fair value accounting, movement in the market value of the supporting assets is a major factor in the movement of policy liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the policy liabilities associated with the change in the value of the supporting assets is included in the Normal Change In Force above.

In 2009, the major contributors to the increase in policy liabilities was the impact of new business and the normal change in the in force business almost totally offset by the impact of foreign exchange rates.

Non-participating policy liabilities decreased by $194 in 2009 due to management actions and assumption changes including a $135 decrease in Canada, a $58 decrease in Europe and a $1 decrease in the United States. The decrease in Canada was primarily due to improved Individual Life mortality ($115 decrease), improved expenses ($48 decrease) and modelling refinements in individual life and annuities ($32 decrease) partially offset by the future tax impact of a change in asset mix targets for long-tail liabilities ($52 increase). The decrease in Europe was primarily due to reduced provisions for asset liability matching ($199 decrease), modelling refinements in annuities ($97 decrease) and improved life mortality ($47 decrease) partially offset by strengthening of asset default and expense ($158 increase), modelling refinements in reinsurance ($77 increase), strengthened administration expenses in Europe ($30 increase) and strengthened longevity ($20 increase). The decrease in the United States was primarily due to reduced provisions for asset liability matching ($32 decrease) and improved life mortality ($18 decrease) partially offset by strengthening of asset default ($32 increase) and strengthened longevity ($13 increase).

Participating policy liabilities decreased by $74 in 2009 due to management actions and assumption changes. This decrease was primarily due to a decrease in the provision for future policyholder dividends ($1,495 decrease) and improved life mortality ($168 decrease) partially offset by lowered investment returns ($1,588 increase).

In 2008, the major contributors to the increase in policy liabilities were the reinsurance of a large block of U.K. payout annuities from Standard Life Assurance Limited, the impact of new business and the impact of foreign exchange rates partially offset by the normal change in the in force business.

Non-participating policy liabilities increased by \$109 in 2008 due to management actions and assumption changes. By segment a \$245 increase in Europe and \$63 increase in the United States were partially offset by a \$199 decrease in Canada. The increase in Europe was primarily due to strengthened life annuitant mortality (\$203 increase), strengthened provisions for asset liability matching (\$109 increase) and strengthened provisions for asset default (\$108 increase) partially offset by two annuitant mortality risk transfer agreements (\$98 decrease) and improved morbidity (\$68 decrease). The increase in the United States was primarily due to strengthened expenses (\$82 increase). The decrease in Canada was primarily due to improved Individual Life mortality (\$105 decrease) and improved Individual and Group morbidity (\$94 decrease).

Participating policy liabilities increased by \$43 in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns (\$76 increase) and an increase in the provision for future policyholder dividends (\$8[illegible] increase), partially offset by improved life mortality (\$66 decrease) and improved expenses and taxes (\$62 decrease).

(c) Actuarial Assumptions

In the computation of policy liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment [illegible] returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins are reviewed periodically [illegible] continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use i[illegible] of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improven[illegible] been observed for many years, for life insurance valuation the mortality provisions (including margin) do not [illegible] improvements. In addition, appropriate provisions have been made for future mortality deterioration on term insurance [illegible] increase in the best estimate assumption would increase non-participating policy liabilities by approximately \$216 [illegible] decrease in net income of approximately \$157.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mo[illegible] tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would increase non-participating policy liabilities by approximately \$229 causing a decrease in net income of approximately \$183.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for whi[illegible] morbidity is a significant assumption a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would increase non-participating policy liabilities by approximately \$224 causing a decrease in net income of approximately \$155.

Property and casualty reinsurance

Policy liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. Reflecting the long term nature of the business, policy liabilities have been established using cash flow valuation techniques including discounting. The policy liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, policy liabilities also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine policy liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 5(c)).

10. Policy Liabilities (cont'd)

Expenses

Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would increase the non-participating policy liabilities by approximately $70 causing a decrease in net income of approximately $50.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating policy liabilities by approximately $351 causing a decrease in net income of approximately $241.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally speaking, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of policy liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is our expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in policy liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholder income is reflected in the impacts of changes in best estimate assumptions above.

(d) Ceded Reinsurance

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, policy liabilities have been reduced by the following amounts:

	2009	2008
Participating	$ 17	$ 112
Non-participating	2,946	3,225
	$ 2,963	$ 3,337

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured policy liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

11. Financing Charges

Financing charges consist of the following:

	2009	2008
Operating charges:		
Interest on long-term debentures and other debt instruments	$ 8	$ 6
Financial charges:		
Interest on long-term debentures and other debt instruments	207	236
Dividends on preferred shares classified as liabilities	36	36
Net realized/unrealized losses (gains) on preferred shares classified as held for trading	29	(33)
Subordinated debenture issue costs	2	5
Other	12	9
Interest on capital trust debentures	47	49
Distributions on capital trust securities held by consolidated group as temporary investments	(5)	(12)
	328	290
Total	$ 336	$ 29[illegible]

12. Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	2009		[illegible]	
	Carrying value	Market value	Carrying value	[illegible]
Short term				
Commercial paper and other short term debt instruments with interest rates from 0.28% to 0.38% (0.6% to 2.4% in 2008)	$ 102	$ 102	$ 11[illegible]	[illegible]
Revolving credit facility at a rate equal to LIBOR rate plus 0.25% (2008 – U.S. $120)	–	–	14[illegible]	[illegible]
Revolving credit facility at a rate equal to LIBOR rate plus 2.75% or U.S. Prime Rate Loan plus 1.75% (U.S. $260)	273	273	–	
Total short term	375	375	[illegible]	[illegible]
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	5	5		
Capital:				
Lifeco				
6.75% Debentures due August 10, 2015, unsecured	200	207	2[illegible]	[illegible]
6.14% Debentures due March 21, 2018, unsecured	200	218	200	[illegible]
6.74% Debentures due November 24, 2031, unsecured	200	216	200	[illegible]
6.67% Debentures due March 21, 2033, unsecured	400	431	40[illegible]	[illegible]
5.998% Debentures due November 16, 2039, unsecured	345	345	–	
	1,345	1,417	1,000	[illegible]
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	100	105	100	86
Acquisition related fair market value adjustment	–	–	1	–
	100	105	101	86
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	183	138	212	180
Great-West Life & Annuity Insurance Capital, LP II				
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	315	277	366	200
Putnam Acquisition Financing LLC				
Five year term facility at LIBOR rate plus 0.30% (U.S. $304)	319	319	371	348
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	1,000	1,018	1,000	793
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	500	554	500	424
Total long term	3,767	3,833	3,556	2,974
Total debentures and other debt instruments	$ 4,142	$ 4,208	$ 3,821	$ 3,239

12. Debentures and Other Debt Instruments (cont'd)

On November 16, 2009, the Company issued $200 principal amount of 5.998% Debentures and an additional principal amount of $144 on December 18, 2009 (see note 14). The debentures are due November 16, 2039 and bear an interest rate of 5.998% until they are due. The debentures may be redeemed by the Company at the greater of the Canadian Yield Price and par plus any unpaid and accrued interest on not less than 30 and no more than 60 days notice.

On June 22, 2009, Putnam LLC executed a new revolving credit facility agreement with a syndicate of banks for U.S. $500, an increase of U.S. $300 from the previous agreement. At December 31, 2009, a subsidiary of Putnam LLC had drawn U.S. $260 on this credit facility.

On June 26, 2008, the Company issued $500 of 7.127% Subordinated Debentures through its wholly-owned subsidiary Great-West Lifeco Finance (Delaware) LP II. The subordinated debentures are due June 26, 2068 and bear an interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by the Company at the principal amount plus any unpaid and accrued interest after June 26, 2018.

On January 24, 2008, a subsidiary of Putnam LLC executed a demand promissory note in the amount of U.S. $150 with a Canadian Chartered Bank. On January 24, 2008, Putnam LLC drew U.S. $150 on the note. On March 26, 2008, a subsidiary of Putnam LLC executed a U.S. $200 revolving credit facility with a Canadian Chartered Bank and used proceeds from the facility to repay the U.S. $150 demand promissory note. There was U.S. $120 outstanding under the facility at December 31, 2008.

13. Other Liabilities

Other liabilities consist of the following:

	2009	2008
Current income taxes	$ 141	$ 212
Accounts payable	945	1,029
Liability for restructuring costs (note 3)	–	85
Pension and other post-retirement benefits (note 19)	528	550
Future income taxes (note 23)	699	317
Derivative financial instruments	251	1,119
Other	2,044	2,657
	$ 4,608	$ 5,969

14. Capital Trust Securities and Debentures

	2009		2008	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures:				
5.995% Senior debentures due December 31, 2052, unsecured (GWLCT)	$ 350	$ 383	$ 350	$ 361
6.679% Senior debentures due June 30, 2052, unsecured (CLCT)	300	331	300	315
7.529% Senior debentures due June 30, 2052, unsecured (CLCT)	150	186	150	156
	800	900	800	832
Acquisition related fair market value adjustment	19	–	25	–
Trust securities held by consolidated group as temporary investments	(41)	(41)	(167)	(165)
Trust securities held by the Company as long-term investments	(238)	(258)	–	–
Total	$ 540	$ 601	$ 658	$ 667

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 11).

Pursuant to the Canada Life Financial Corporation acquisition in 2003, the Canadian regulated subsidiaries had purchased certain of these Capital Trust Debentures. During the year the Company disposed of $138 principal amount of capital trust securities held by the consolidated group as temporary investments.

On November 11, 2009 the Company launched an issuer bid whereby it offered to acquire up to 170,000 of the outstanding Great-West Life Trust Securities – Series A (GREATs) of GWLCT and up to 180,000 of the outstanding Canada Life Capital Securities – Series A (CLiCS) of CLCT. On December 18, 2009, pursuant to this offer the Company acquired 116,547 GREATs and 121,788 CLiCS for $261, plus accrued and unpaid interest. In connection with this transaction the Company issued $144 aggregate principal amount of 5.998% debentures due November 16, 2039 and paid cash of $122.

15. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam and GWL&A at December 31, 2009 and December 31, 2008.

On demutualization, $50 of seed capital was transferred from the shareholder account to the participating policyholder account of Canada Life. In accordance with the Conversion Proposal of Canada Life, the seed capital amount, together with a reasonable rate of return, may be transferred back to the shareholder account if the seed capital is no longer required to support the new participating policies.

In 2008, $5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of $3 after-tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of $5 and a decrease in non-controlling interest of $5. $28 of seed capital has been repaid to date.

In 2008, non-controlling interests decreased by approximately $176 in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in the Summaries of Consolidated Operations are as follows:

	2009	2008
Participating account		
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 139	$ 129
London Life	696	745
Canada Life	245	212
GWL&A	(7)	(173)
	1,073	913
Policyholder dividends		
Great-West Life	(121)	(122)
London Life	(702)	(679)
Canada Life	(233)	(226)
GWL&A	(2)	(2)
	(1,058)	(1,029)
Net income – participating account	15	(116)
Preferred shareholder dividends of subsidiaries	15	15
Non-controlling interests in subsidiaries	6	(7)
Total	$ 36	$ (108)

(b) The carrying value of non-controlling interests consists of the following:

	2009	2008
Participating account surplus:		
Great-West Life	$ 436	$ 417
London Life	1,533	1,549
Canada Life	30	31
GWL&A	5	15
	$ 2,004	$ 2,012
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ 157	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	2	5
	$ 147	$ 150
Non-controlling interests in subsidiaries	$ 63	$ 13

Non-controlling interests in capital stock and surplus includes non-controlling interests in Putnam controlled investments in institutional portfolio funds, hedge funds, Putnam sponsored mutual funds and PanAgora Asset Management Inc.

15. Non-Controlling Interests (cont'd)

Prior to August 3, 2007, Putnam sponsored the Putnam Investments Trust Equity Partnership Plan (the EPP) which granted options and restricted shares to certain senior management and key employees of Putnam (the participants). As a result of the acquisition of Putnam, all outstanding awards were vested and settled in cash by Lifeco. The amount attributable to each participant was bifurcated, based upon a methodology provided in the EPP, into cash and a deferred amount. The participants received the cash portion immediately, and will receive the deferred amount over a three year period.

The deferred amount was contributed to Grantor Trusts established for the benefit of the participants. The participants may direct the manner in which their Grantor Trust amounts are invested, including the Putnam Class B shares, which are available pursuant to the EIP described in note 18(b). At December 31, 2009 1,275,754 Putnam Class B shares have vested to plan participants (520,385 at December 31, 2008), representing a non-controlling interest in Putnam LLC of 1.33% (0.54% at December 31, 2008).

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in OCI are as follows:

	2009	2008
Participating account		
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ 1	$ (1)
London Life	(10)	13
Canada Life	(13)	14
GWL&A	(2)	4
Other comprehensive income (loss) – participating account	$ (24)	$ 30

16. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares
Unlimited Common Shares

	2009		2008	
Issued and outstanding	Number	Carrying value	Number	Carrying value
Classified as liabilities				
Preferred shares:				
Designated as held for trading [(1)]				
Series D, 4.70% Non-Cumulative First Preferred Shares	7,938,500	$ 203	7,938,500	$ 199
Series E, 4.80% Non-Cumulative First Preferred Shares	–	–	22,282,215	553
	7,938,500	$ 203	30,220,715	$ 752
Classified as equity				
Perpetual preferred shares:				
Series F, 5.90% Non-Cumulative First Preferred Shares	7,895,590	$ 197	7,957,001	$ 199
Series G, 5.20% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series L, 5.65% Non-Cumulative First Preferred Shares	6,800,000	170	–	–
Rate reset preferred shares:				
Series J, 6.00% Non-Cumulative First Preferred Shares	9,200,000	230	9,200,000	230
	59,895,590	$ 1,497	53,157,001	$ 1,329
Common shares:				
Balance, beginning of year	943,882,505	$ 5,736	893,761,639	$ 4,709
Issued from treasury	–	–	48,200,000	1,000
Issued under Stock Option Plan	1,157,971	15	1,920,866	27
Balance, end of year	945,040,476	$ 5,751	943,882,505	$ 5,736

(1) The Company has designated outstanding Preferred Shares Series D and Series E as held for trading on the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. During the year ended December 31, 2009 the Company recognized an increase (reduction) in financing costs of $29 ($4 for Series D and $25 for Series E) and $(33) ($(6) for Series D and $(27) for Series E) for the year ended December 31, 2008. The redemption price at maturity is $25 per share plus accrued dividends.

Preferred Shares

The Company recognized the surrender of Series E First Preferred shares with a carrying value of $5 and Series F First Preferred shares with a carrying value of $2. On December 31, 2009 the Company redeemed all of the remaining outstanding Series E First Preferred shares at a redemption price of $26 per share.

On October 2, 2009 the Company issued 6,800,000 Series L, 5.65% Non-Cumulative First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on or after December 31, 2014 for $25 per share plus a premium if redeemed prior to December 31, 2018, in each case with all declared and unpaid dividends to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $6 ($4 after-tax) were charged to surplus.

The Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption or are convertible to Series K First Preferred Shares at the option of the holders on December 31, 2013 and on December 31 every five years thereafter. Transaction costs incurred in connection with the Series J issue of $7 ($5 after-tax) were charged to surplus.

The Series D, 4.70% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after March 31, 2009 for $25 per share plus a premium if the shares are redeemed before March 31, 2011 or are convertible to variable amount of common shares of the Company at the option of the Company on or after March 31, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after March 31, 2014.

The Series E, 4.80% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2009 for $25 per share plus a premium if the shares are redeemed before September 30, 2012 or are convertible to a variable amount of common shares of the Company at the option of the Company on or after September 30, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after September 30, 2013.

The Series F, 5.90% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2008 for $25 per share plus a premium if the shares are redeemed before September 30, 2012.

The Series G, 5.20% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2009 for $25 per share plus a premium if the shares are redeemed before December 31, 2013.

The Series H, 4.85% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2010 for $25 per share plus a premium if the shares are redeemed before September 30, 2014.

The Series I, 4.50% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2011, for $25 per share plus a premium if the shares are redeemed before June 30, 2015.

Common Shares

On November 25, 2009, the Company announced a Normal Course Issuer Bid commencing December 1, 2009 and terminating November 30, 2010 to purchase for cancellation up to but not more than 6,000,000 common shares.

On December 30, 2008, for general corporate purposes and to augment the Company's current liquidity position, 28,920,000 common shares were issued from treasury to the public and 19,280,000 common shares were issued via private placement to Power Financial Corporation for an aggregate value of $1 billion or $20.75 per share. Transaction costs incurred in connection with the common share issue of $24 ($16 after-tax) were charged to surplus.

17. Capital Management

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

17. Capital Management (cont'd)

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Great-West Life:

	2009	2008
Capital Available:		
Tier 1 Capital		
Common shares	$ 6,116	$ 6,116
Shareholder surplus	6,063	5,604
Qualifying non-controlling interests	147	150
Innovative instruments	774	648
Other Tier 1 Capital Elements	979	1,513
Gross Tier 1 Capital	14,079	14,031
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,696	5,673
Other deductions	1,330	1,697
Net Tier 1 Capital	7,053	6,661
Adjustment to Net Tier 1 Capital	(39)	–
Net Tier 1 Capital	7,014	6,661
Tier 2 Capital		
Tier 2A	325	345
Tier 2B allowed	300	300
Tier 2C	1,270	1,550
Tier 2 Deductions	(39)	–
Tier 2 Capital Allowed	1,856	2,195
Total Tier 1 and Tier 2 Capital	8,870	8,856
Less: Deductions/Adjustments	–	124
Total Available Capital	$ 8,870	$ 8,732
Capital Required:		
Assets Default & market risk	$ 1,705	$ 1,510
Insurance Risks	1,814	1,800
Interest Rate Risks	824	803
Other	11	50
Total Capital Required	$ 4,354	$ 4,163
MCCSR ratios:		
Tier 1	161%	160%
Total	204%	210%

In the United States, GWL&A is subject to comprehensive state and federal regulation and supervision. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. At the end of 2009, the risk-based capital (RBC) ratio for GWL&A was estimated to be above 400% of the Company action level.

As at December 31, 2009 and 2008 the Company maintained capital levels above the minimum local requirements in its other foreign operations.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to put amounts on deposit for certain reinsurance transactions. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. Some of these amounts on deposit support surplus.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

18. Stock Based Compensation

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to 8 years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2009		2008	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of year	**17,240,465**	**$ 24.33**	15,156,685	$ 21.26
Granted	–	–	4,158,270	30.76
Exercised	**(1,157,971)**	**12.79**	(1,920,866)	13.24
Forfeited	–	–	(153,624)	33.57
Outstanding, end of year	**16,082,494**	**$ 25.17**	17,240,465	$ 24.33
Options exercisable at end of year	**11,694,654**	**$ 22.29**	10,048,715	$ 18.89

There were no options granted during 2009. The weighted-average fair value of options granted during 2008 was $3.11 per option. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for those options granted in 2008: dividend yield 3.80%, expected volatility 13.78%, risk-free interest rate 3.36%, and expected life of 7 years.

In accordance with the fair value based method of accounting, compensation expense of $8 after-tax in 2009 ($11 in 2008) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2009:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$11.14–$19.42	2,626,025	0.54	13.15	2,626,025	13.14	2010
$17.14–$37.22	2,139,169	1.68	21.22	2,139,169	21.22	2011
$17.20–$19.42	133,800	2.38	18.47	133,800	18.47	2012
$18.84–$37.22	2,621,230	3.51	21.05	2,621,230	21.05	2013
$24.17–$29.84	923,000	4.30	26.57	923,000	26.57	2014
$28.26–$29.84	1,958,000	5.95	29.82	1,566,400	29.82	2015
$35.36–$37.22	1,523,000	7.20	37.07	182,760	37.07	2017
$28.59–$31.27	4,158,270	8.39	30.76	1,502,270	30.04	2018

18. Stock Based Compensation (cont'd)

(b) Effective September 25, 2007, Putnam sponsored the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam is authorized to grant or sell Class B Shares of Putnam LLC (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam. Holders of Putnam Class B Shares are not entitled to vote and have no rights to convert their shares in to any other securities. The number of Putnam Class B Shares that may be subject to Awards under the EIP is limited to 10,000,000.

During 2009, Putnam LLC granted 4,544,212 (3,609,797 in 2008) restricted Class B common shares and no (1,179,802 in 2008) Class B stock options to certain members of senior management and key employees. Compensation expense recorded for the year ended December 31, 2009 related to restricted Class B common shares and Class B stock options earned was $24 ($12 for the year ended December 31, 2008).

Also refer to note 15(b).

19. Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

In 2008, a subsidiary of the Company divested a portion of its business. As a result, all of the subsidiary's defined benefit plans were partially curtailed. In accordance with accounting standards, the financial effect of the curtailment was reflected as part of the sale rather than as part of the pension and benefits expense.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit pension plans at December 31, 2009 and 2008:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
Change in Plan Assets				
Fair value of assets, beginning of year	$ 2,639	$ 3,142	$ –	$ –
Employee contributions	15	15	–	–
Employer contributions	109	44	18	16
Return on plan assets	402	(465)	–	–
Benefits paid	(162)	(149)	(18)	(16)
Settlement	(2)	–	–	–
Foreign exchange rate changes	(67)	52	–	–
Fair value of assets, end of year	$ 2,934	$ 2,639	$ –	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	$ 2,581	$ 2,784	$ 317	$ 379
Reclassification of liability	–	14	–	–
Employer current service cost	40	62	2	3
Employee contributions	15	15	–	–
Interest on accrued benefit obligation	168	160	21	21
Actuarial (gains) losses	287	(364)	30	(65)
Benefits paid	(162)	(149)	(18)	(16)
Past service cost	1	(1)	–	
Curtailments and settlements	(2)	(18)	–	(10)
Special termination benefits	–	2	–	–
Foreign exchange rate changes	(96)	76	(3)	5
Accrued benefit obligation, end of year	$ 2,832	$ 2,581	$ 349	$ 317
Net funded status	$ 102	$ 58	$ (349)	$ (317)
Employer contributions after measurement date	–	21	–	1
Unamortized past service costs (credits)	(113)	(125)	(51)	(62)
Unamortized net losses (gains)	294	254	(2)	(34)
Unamortized transitional obligation	1	2	–	–
Valuation allowance	(75)	(74)	–	–
Accrued benefit asset (liability)	$ 209	$ 136	$ (402)	$ (412)
Recorded in:				
Other assets	$ 335	$ 274	$ –	$ –
Other liabilities	(126)	(138)	(402)	(412)
Accrued benefit asset (liability)	$ 209	$ 136	$ (402)	$ (412)
Plans with accrued benefit obligations in excess of plan assets [1]:				
Plans with Plan Assets				
Fair value of plan assets	$ 609	$ 518		
Accrued benefit obligation	(796)	(675)		
Plan deficit	$ (187)	$ (157)		
Plans without Plan Assets				
Accrued benefit obligation – Plan deficit	$ (191)	$ (188)	$ (349)	$ (317)

(1) The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

19. Pension Plans and Other Post-Retirement Benefits (cont'd)

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
Cost Recognized				
Amounts arising from events in the period				
Defined benefit service cost	$ 55	$ 77	$ 2	$ 3
Defined contribution service cost	33	35	–	–
Employee contributions	(15)	(15)	–	–
Employer service cost	73	97	2	3
Past service costs	1	(1)	–	–
Interest cost on accrued benefit obligation	168	160	21	21
Actual return on plan assets	(402)	465	–	–
Actuarial (gain) loss on accrued benefit obligation	287	(364)	30	(65)
Cost incurred	127	357	53	(41)
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	224	(670)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(281)	357	(32)	66
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(12)	(10)	(9)	(9)
Increase (decrease) in valuation allowance	1	18	–	–
Net benefit cost recognized for the period	$ 60	$ 53	$ 12	$ 16
Cash payments				
Contributions – Funded defined benefit plans	$ 75	$ 46	$ –	$ –
– Funded defined contribution plans	33	35	–	–
Benefits paid for unfunded plans	13	17	17	16
Total cash payment	$ 121	$ 98	$ 17	$ 16

(c) Measurement and Valuation

Measurement date is December 31. The measurement date used for the prior fiscal year was November 30. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2006	29%	December 31, 2009	47%
April 1, 2007	4%	April 1, 2010	4%
December 31, 2007	29%	December 31, 2010	29%
December 31, 2008	38%	December 31, 2011	20%

The fair value of assets is used to determine the expected return on assets.

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2009	2008
Equity securities	50%	44%
Debt securities	38%	41%
Real estate	4%	5%
Cash and cash equivalents	8%	10%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

(e) Significant Weighted-Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2009	2008	2009	2008
To determine benefit cost:				
Discount rate	6.8%	5.9%	7.1%	5.8%
Expected long-term rate of return on plan assets	6.8%	6.6%	–	–
Rate of compensation increase	4.2%	4.2%	3.9%	4.2%
To determine accrued benefit obligation:				
Discount rate	6.2%	6.8%	6.3%	7.1%
Rate of compensation increase	3.9%	4.2%	3.9%	3.9%
Health care trend rates:				
Initial health care trend rate			7.1%	7.2%
Ultimate health care trend rate			4.5%	5.0%
Year ultimate trend rate is reached			2024	2012

(f) Impact of Changes to Assumed Healthcare Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2009	2008	2009	2008
Impact on accrued benefit obligation	$ 31	$ 28	$ (27)	$ (23)
Impact on service and interest cost	$ 2	$ 3	$ (2)	$ (2)

20. Earnings per Common Share

The following table provides the reconciliation between basic and diluted earnings per common share:

	2009	2008
Earnings		
Net income from continuing operations	$ 1,699	$ 761
Net income from discontinued operations	–	692
Net income	$ 1,699	$ 1,453
Perpetual preferred share dividends	72	57
Net income – common shareholders	$ 1,627	$ 1,396
Number of common shares		
Average number of common shares outstanding	944,331,956	894,849,384
Add:		
– Potential exercise of outstanding stock options	1,716,451	3,804,656
Average number of common shares outstanding – diluted basis	946,048,407	898,654,040
Basic earnings per common share		
From continuing operations	$ 1.722	$ 0.787
From discontinued operations	–	0.773
	$ 1.722	$ 1.560
Diluted earnings per common share		
From continuing operations	$ 1.719	$ 0.783
From discontinued operations	–	0.770
	$ 1.719	$ 1.553

21. Accumulated Other Comprehensive Loss

	2009					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (605)	$ (36)	$ (197)	$ (838)	$ 51	$ (787)
Other comprehensive income (loss)	(1,073)	47	224	(802)	21	(781)
Income tax	4	(25)	(78)	(99)	3	(96)
	(1,069)	22	146	(901)	24	(877)
Balance, end of year	$ (1,674)	$ (14)	$ (51)	$ (1,739)	$ 75	$ (1,664)

	2008					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (1,801)	$ 174	$ 13	$ (1,614)	$ 81	$ (1,533)
Other comprehensive income (loss)	1,197	(311)	(324)	562	(28)	534
Income tax	(1)	101	114	214	(2)	212
	1,196	(210)	(210)	776	(30)	746
Balance, end of year	$ (605)	$ (36)	$ (197)	$ (838)	$ 51	$ (787)

22. Related Party Transactions

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2009 the Company held $35 ($36 in 2008) of debentures issued by IGM.

During 2009, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $147 from IGM ($144 in 2008). Great-West Life, London Life and Canada Life sold residential mortgages of $2 ($3 in 2008) to segregated funds maintained by Great-West Life and $98 ($66 in 2008) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

23. Income Tax

(a) Future income taxes consist of the following taxable temporary differences on:

	2009	2008
Policy liabilities	$ 27	$ 433
Portfolio investments	(425)	(305)
Other	896	1,229
Future income taxes receivable (payable)	$ 498	$ 1,357
Recorded in:		
Other assets	$ 1,197	$ 1,674
Other liabilities	(699)	(317)
	$ 498	$ 1,357

(b) The Company's effective income tax rate is derived as follows:

	2009		2008	
Combined basic Canadian federal and provincial tax rate	$ 665	32.0%	$ 122	32.5%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(69)	(3.3)	(93)	(24.7)
Lower effective tax rates on income not subject to tax in Canada	(141)	(6.8)	(217)	(57.9)
Other	(110)	(5.3)	(91)	(24.2)
Impact of rate changes on future income taxes	–	–	1	0.2
Effective income tax rate applicable to current year	$ 345	16.6%	$ (278)	(74.1)%

The 2008 effective tax rate of (74.1)% would be 21.1% excluding the impact of the goodwill and intangible impairment charge.

In conjunction with the 2008 goodwill and intangible impairment charge, the Company also wrote off a future tax asset with regards to State taxes in the amount of $34 ($28 U.S.). This amount is included in other.

At December 31, 2009, the Company had tax loss carryforwards, totalling $4,297 ($4,552 in 2008). Of this amount, $2,148 expire between 2010 and 2029, while $2,149 have no expiry date. The future tax benefit of these loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $1,259 ($1,325 in 2008) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

24. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 5 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2009	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ –	$ –
Futures – short	181	–	–	–	–
Swaps	1,747	189	14	173	17
Options purchased	1,461	36	12	43	3
	3,497	225	26	216	20
Foreign exchange contracts					
Forward contracts	156	1	1	2	–
Cross-currency swaps	6,828	491	481	972	80
	6,984	492	482	974	80
Other derivative contracts					
Equity contracts	75	–	5	5	–
Futures – long	12	–	–	–	–
Futures – short	5	–	–	–	–
	92	–	5	5	–
	$ 10,573	$ 717	$ 513	$ 1,195	$ 100

* Maximum credit risk does not include collateral received of $35, however it is reflected in the credit risk equivalent.

2008	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ –	$ –
Futures – short	99	–	–	–	–
Swaps	2,426	380	18	398	75
Options purchased	308	54	5	59	12
	2,952	434	23	457	87
Foreign exchange contracts					
Forward contracts	141	2	1	3	1
Cross-currency swaps	6,692	215	464	679	134
	6,833	217	465	682	135
Other derivative contracts					
Equity contracts	89	1	5	6	1
Credit default swaps	67	–	–	–	2
	156	1	5	6	3
	$ 9,941	$ 652	$ 493	$ 1,145	$ 225

* Maximum credit risk does not include a reduction for collateral paid of $25.

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2009				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 108	$ –	$ –	$ 108	$ –
Futures – short	108	–	–	108	–
Swaps	346	687	652	1,685	169
Options purchased	60	957	444	1,461	35
	622	1,644	1,096	3,362	204
Foreign exchange contracts					
Forward contracts	156	–	–	156	1
Cross-currency swaps	108	987	4,233	5,328	336
	264	987	4,233	5,484	337
Other derivative contracts					
Equity contracts	49	26	–	75	(23)
Futures – long	12	–	–	12	–
Futures – short	5	–	–	5	–
	66	26	–	92	(23)
	952	2,657	5,329	8,938	518
Cash flow hedges					
Interest rate contracts					
Futures – short	24	–	–	24	–
Swaps	–	–	62	62	7
	24	–	62	86	7
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(59)
Fair value hedges					
Interest rate contracts					
Futures – short	49	–	–	49	–
Total	$ 1,025	$ 2,657	$ 6,891	$ 10,573	$ 466

24. Derivative Financial Instruments (cont'd)

	2008				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ 119	$ –
Futures – short	39	–	–	39	–
Swaps	751	699	898	2,348	313
Options purchased	–	–	308	308	54
	909	699	1,206	2,814	367
Foreign exchange contracts					
Forward contracts	141	–	–	141	2
Cross-currency swaps	234	898	4,060	5,192	(508)
	375	898	4,060	5,333	(506)
Other derivative contracts					
Equity contracts	61	17	11	89	(18)
Credit default swaps	67	–	–	67	(2)
	128	17	11	156	(20)
	1,412	1,614	5,277	8,303	(159)
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	78	78	32
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(340)
Fair value hedges					
Interest rate contracts					
Futures – short	60	–	–	60	–
Total	$ 1,472	$ 1,614	$ 6,855	$ 9,941	$ (467)

Futures contracts included in the above tables are exchange traded contracts; all other contracts are over the counter.

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. The Company may use credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

25. Reinsurance Transactions

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRE), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life. These amounts on deposit are presented in funds held by ceding insurers on the Consolidated Balance Sheets. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by $12.5 billion in 2008. During 2009, an additional £282 ($477) was added to the amounts on deposit.

During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

26. Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. The provisions for certain Canadian retirement plans in the amounts of $97 after-tax established by the Company's subsidiaries in the third quarter, 2007 have been reduced to $68. Actual results could differ from these estimates.

The trial of the class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of London Insurance Group Inc. (LIG) in 1997 by Great-West Life concluded on January 15, 2010. The Court reserved and a decision is expected later in 2010. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

The Company has entered into an agreement to settle a class action relating to the provision of notice of the acquisition of Canada Life Financial Corporation (CLFC)to certain shareholders of CLFC. The settlement received Court approval on January 27, 2010 and will take a number of months to implement. Based on information presently known, this matter is not expected to have a material adverse effect on the consolidated financial position of the Company.

Legal proceedings have been commenced against a private equity vehicle in which subsidiaries of the Company have an ownership interest. Another subsidiary of the Company has established a provision related to these legal proceedings. Actual results could differ from these estimates. These proceedings are in their early stages and it is difficult to predict the outcome with certainty. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

In connection with the acquisition of its subsidiary Putnam, the Company has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. The Company expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on the consolidated financial position of the Company.

27. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $612 in letters of credit under the facility as at December 31, 2009 (U.S. $622 at December 31, 2008).

In addition, LRG has other bilateral letter of credit facilities totaling U.S. $18 (2008 – U.S. $18). LRG has issued U.S. $6 in letters of credit under these facilities as at December 31, 2009 (U.S. $6 at December 31, 2008).

27. Commitments (cont'd)

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2009 ($1 at December 31, 2008), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2010	2011	2012	2013	2014	2015 and thereafter	Total
Future lease payments	$ 109	90	74	60	50	155	$ 538

28. Segmented Information

The major reportable segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from life, health and disability insurance, annuity products, investment management services, savings products and life, property and casualty, accident and health reinsurance. Business activities that are not associated with the specific business units are attributed to the Lifeco Corporate segment.

(a) Consolidated Operations

	2009				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,946	$ 2,973	$ 6,114	$ –	$ 18,033
Net investment income					
Regular net investment income	2,610	1,521	2,025	23	6,179
Changes in fair value on held for trading assets	1,316	981	1,193	–	3,490
Total net investment income	3,926	2,502	3,218	23	9,669
Fee and other income	938	1,240	661	–	2,839
Total income	13,810	6,715	9,993	23	30,541
Benefits and expenses:					
Paid or credited to policyholders	10,354	4,778	8,677	–	23,809
Other	2,205	1,594	746	18	4,563
Amortization of finite life intangible assets	32	51	6	–	89
Income from continuing operations before income taxes	1,219	292	564	5	2,080
Income taxes	268	68	7	2	345
Net income before non-controlling interests	951	224	557	3	1,735
Non-controlling interests	26	(4)	14	–	36
Net income from continuing operations	925	228	543	3	1,699
Net income from discontinued operations	–	–	–	–	–
Net Income	925	228	543	3	1,699
Perpetual preferred share dividends	42	–	14	16	72
Net income – common shareholders	$ 883	$ 228	$ 529	$ (13)	$ 1,627

	2008				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,197	$ 2,683	$ 19,127	$ –	$ 30,007
Net investment income					
Regular net investment income	2,367	1,345	2,262	(12)	5,962
Changes in fair value on held for trading assets	(2,168)	(1,286)	(1,707)	–	(5,161)
Total net investment income	199	59	555	(12)	801
Fee and other income	1,034	1,442	648	–	3,124
Total income	9,430	4,184	20,330	(12)	33,932
Benefits and expenses:					
Paid or credited to policyholders	5,748	2,366	18,660	–	26,774
Other	2,175	1,507	759	11	4,452
Amortization of finite life intangible assets	28	51	4	–	83
Restructuring costs	–	70	–	–	70
Intangible and goodwill impairment	–	2,178	–	–	2,178
Income from continuing operations before income taxes	1,479	(1,988)	907	(23)	375
Income taxes	360	(799)	164	(3)	(278)
Net income before non-controlling interests	1,119	(1,189)	743	(20)	653
Non-controlling interests	73	(184)	3	–	(108)
Net income from continuing operations	1,046	(1,005)	740	(20)	761
Net income from discontinued operations	–	692	–	–	692
Net Income	1,046	(313)	740	(20)	1,453
Perpetual preferred share dividends	43	–	14	–	57
Net income – common shareholders	$ 1,003	$ (313)	$ 726	$ (20)	$ 1,396

(b) Consolidated Total Assets

	2009			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 48,585**	**$ 24,762**	**$ 29,409**	**$ 102,756**
Goodwill and intangible assets	**5,093**	**1,830**	**1,721**	**8,644**
Other assets	**2,180**	**2,670**	**12,119**	**16,969**
Total assets	**$ 55,858**	**$ 29,262**	**$ 43,249**	**$ 128,369**

	2008			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 46,240	$ 26,277	$ 30,535	$ 103,052
Goodwill and intangible assets	5,059	2,152	1,737	8,948
Other assets	1,875	3,494	12,705	18,074
Total assets	$ 53,174	$ 31,923	$ 44,977	$ 130,074

To the Shareholders of
Great-West Lifeco Inc.

We have audited the consolidated balance sheets of Great-West Lifeco Inc. as at December 31, 2009 and 2008 and the summaries of consolidated operations, the consolidated statements of surplus, the summaries of consolidated comprehensive income and the consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 11, 2010

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not a Canadian generally accepted accounting principles (GAAP) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of Canadian GAAP net income. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Lifeco's sources of earnings are shown below for 2009 and 2008.

($millions)

	Shareholder net income				
For year to date at December 31, 2009	**Canada**	**United States**	**Europe**	**Lifeco Corporate**	**Total**
Expected profit on in-force business	$ 903	$ 264	$ 498	$ (12)	$ 1,653
Impact of new business	(15)	0	11	0	(4)
Experience gains and losses	227	112	(153)	(2)	184
Management actions and changes in assumptions	162	11	37	0	210
Other	0	0	0	0	0
Earnings on surplus	(51)	69	157	19	194
Net income before tax	**1,226**	**456**	**550**	5	2,237
Taxes	(285)	(139)	(7)	(2)	(433)
Net income before non-controlling interests	**941**	**317**	**543**	3	1,804
Non-controlling interests	(16)	1	0	0	(15)
Net income – shareholders	925	318	543	3	1,789
Perpetual Preferred share dividends	(42)	0	(14)	(16)	(72)
Net income – common shareholder before adjustments	**883**	**318**	**529**	(13)	1,717
Putnam after tax	0	(90)	0	0	(90)
Adjustments after tax	0	0	0	0	0
Net income – common shareholder	$ **883**	$ **228**	$ **529**	$ (13)	$ 1,627

($millions)

For year to date at December 31, 2008	Canada	United States	Europe	Lifeco Corporate	Total
	Shareholder net income				
Expected profit on in-force business	$ 1,053	$ 433	$ 570	$ (5)	$ 2,051
Impact of new business	(8)	0	18	0	10
Experience gains and losses	168	(65)	417	(1)	519
Management actions and changes in assumptions	214	20	(240)	0	(6)
Other	0	0	0	0	0
Earnings on surplus	6	74	136	(17)	199
Net income before tax	**1,433**	**462**	**901**	**(23)**	**2,773**
Taxes	(371)	(87)	(161)	3	(616)
Net income before non-controlling interests	**1,062**	**375**	**740**	**(20)**	**2,157**
Non-controlling interests	(16)	0	0	0	(16)
Net income – shareholders	1,046	375	740	(20)	2,141
Perpetual Preferred share dividends	(43)	0	(14)	0	(57)
Net income – common shareholder before adjustments	**1,003**	**375**	**726**	**(20)**	**2,084**
Putnam after tax	0	(23)	0	0	(23)
Adjustments after tax	0	767	0	0	767
Putnam Adjustments after tax	0	(1,432)	0	0	(1,432)
Net income – common shareholder	**$ 1,003**	**$ (313)**	**$ 726**	**$ (20)**	**$ 1,396**

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 74% of pre-tax earnings in 2009. The expected profit on in-force business of $1,653 in 2009 was $398 lower than the 2008 level. The decrease would have been approximately $30 less on a constant currency basis. A significant contributor to the decrease in expected profits year over year was the impact of equity markets.

New business issued in 2009 led to a loss of $(4) at issue compared to gains of $10 in 2008, largely due to reduced profits on new business in Canada and Reinsurance.

Experience gains in 2009 were primarily due to favourable mortality and morbidity in Canada and Europe and favourable investment experience in Canada. Experience gains in 2008 were primarily due to favourable mortality, morbidity, and investment experience in Europe and Canada Individual Insurance & Investment Products. Experience gains of $184 in 2009 were $335 lower than in 2008 primarily due to unfavourable impact of credit events in Europe.

In 2009 management actions and changes in assumptions contributed $210 to pre-tax earnings, including $16 due to the shareholder portion of valuation assumption changes in the participating lines, and $194 due to valuation assumption changes and management actions for policy liabilities in the other lines of business. The valuation assumption changes and management actions in these other lines consisted of $58 in Europe, $1 in the U.S. and $135 in Canada. The most significant contributors to the Canada amount were $115 due to improved individual life mortality, $48 due to improved expenses, $32 due to modeling refinements in individual life and annuities and $(52) due to the future tax impact of a change in asset mix targets for long-tail liabilities. The most significant contributors to the Europe amount were $199 due to reduced provisions for asset liability matching, $97 due to modeling refinements in annuities, $47 due to improved life mortality, $(158) strengthening of asset default and expense, $(77) due to modeling refinements in reinsurance, $(30) due to strengthened administration expenses in Europe and $(20) due to strengthened longevity. The most significant contributors to the U.S. amount were $32 due to reduced provisions for asset liability matching, $18 due to improved life mortality, $(32) due to strengthening of asset default and $(13) due to strengthened longevity.

In 2008 management actions and changes in assumptions contributed $(6) to pre-tax earnings, including $22 due to a reduction in non-actuarial policy liabilities (mainly Canada Group), $94 related to the sale of U.S. Healthcare and the termination of reinsurance agreements, and $(131) due to valuation assumption changes and management actions for actuarial liabilities. The valuation assumption changes and management actions consisted of $(250) in Europe, $(63) in the U.S., and $182 in Canada. The most significant contributors to the Europe amount were $(203) due to strengthened life annuitant mortality, $(109) due to strengthened provisions for asset liability matching, $(108) due to strengthened provisions for asset default, $98 due to two annuitant mortality risk transfer agreements, and $68 due to improved morbidity. The most significant contributor to the U.S. amount was $(82) due to strengthened expenses. The most significant contributors to the Canada amount were $105 due to improved individual life mortality and $94 due to improved individual and group morbidity.

Earnings on surplus decreased by $5 in 2009 compared to 2008.

FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2009	2008	2007	2006	2005
At December 31					
Total assets under administration	$ 458,575	$ 441,959	$ 496,163	$ 334,441	$ 263,897
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	$ 18,033	$ 30,007	$ 18,753	$ 17,752	$ 15,410
Self-funded premium equivalents (ASO contracts)	2,499	2,410	2,233	2,145	1,955
Segregated funds deposits:					
Individual products	6,229	7,825	9,183	8,420	6,254
Group products	8,470	5,524	5,788	5,240	5,040
Proprietary mutual funds deposits	21,507	30,693	11,183	629	440
Total premiums and deposits	$ 56,738	$ 76,459	$ 47,140	$ 34,186	$ 29,099
Condensed Summary of Operations					
Income					
Premium income	$ 18,033	$ 30,007	$ 18,753	$ 17,752	$ 15,410
Net investment income					
Regular net investment income	6,179	5,962	5,565	5,836	5,317
Changes in fair value on held for trading assets	3,490	(5,161)	(1,098)	–	–
Total net investment income	9,669	801	4,467	5,836	5,317
Fee and other income	2,839	3,124	2,703	1,894	1,623
Total income	30,541	33,932	25,923	25,482	22,350
Benefits and expenses					
Paid or credited to policyholders	23,809	26,774	19,122	19,660	17,019
Other	4,563	4,452	4,120	3,384	3,149
Amortization of intangible assets	89	83	32	18	18
Restructuring costs	–	70	–	–	22
Intangible and goodwill impairment	–	2,178	–	–	–
Income from continuing operations before income taxes	2,080	375	2,649	2,420	2,142
Income taxes	345	(278)	582	522	492
Net income from continuing operations before non-controlling interests	1,735	653	2,067	1,898	1,650
Non-controlling interests	36	(108)	159	162	113
Net income from continuing operations	1,699	761	1,908	1,736	1,537
Net income from discontinued operations	–	692	203	191	238
Net income – shareholders	1,699	1,453	2,111	1,927	1,775
Perpetual preferred share dividends	72	57	55	52	33
Net income – common shareholders	$ 1,627	$ 1,396	$ 2,056	$ 1,875	$ 1,742
Earnings per common share	$ 1.722	$ 1.560	$ 2.304	$ 2.104	$ 1.955
Return on common shareholders' equity	13.8%	12.7%	20.7%	20.1%	20.7%
Book value per common share	$ 12.17	$ 12.61	$ 10.98	$ 11.24	$ 9.76
Dividends to common shareholders – per share	$ 1.2300	$ 1.2000	$ 1.0600	$ 0.9275	$ 0.8100

DIRECTORS AND OFFICERS

As of December 31, 2009

BOARD OF DIRECTORS

Raymond L. McFeetors [2, 3, 4]
Chairman of the Board of the Corporation
Vice-Chairman,
Power Financial Corporation

George S. Bain [1]
Corporate Director

Marcel R. Coutu [2]
President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q. [2, 3, 4]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [2, 3, 4]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

H. David Graves [2, 5]
Chairman, President and
Chief Executive Officer, IMRIS Inc.

Michael L. Hepher [1, 2]
Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1, 5]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

The Right Honourable Donald F. Mazankowski, P.C., O.C., A.O.E. [3, 4]
Senior Advisor to
Gowling Lafleur Henderson LLP

D. Allen Loney, FIA, FCIA [3]
President and Chief Executive Officer
of the Corporation,
The Great-West Life Assurance Company,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1, 3]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2, 4, 5]
Corporate Director

R. Jeffrey Orr [2, 3, 4]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA
Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau, Ph.D. [3]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., FCA [1]
Corporate Director

Philip K. Ryan [3]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Emőke J.E. Szathmáry, C.M., O.M., Ph.D.
President Emeritus,
University of Manitoba

Brian E. Walsh [2]
Managing Partner,
Saguenay Capital, LLC

James W. Burns, O.C., O.M.
Director Emeritus

The Honourable Paul Desmarais, P.C., C.C.
Director Emeritus

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Executive Committee
4 member of the Governance and Nominating Committee
5 member of the Conduct Review Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

William L. Acton
President and Chief Executive Officer,
Canada Life Capital Corporation Inc.

Mitchell T.G. Graye
President and Chief Executive Officer,
Great-West Life & Annuity Insurance Company

Andrew D. Brands
Senior Vice-President, General Counsel,
Canada and Europe

Arshil Jamal
Executive Vice-President,
Capital Management

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Richard G. Schultz
Senior Vice-President, General Counsel,
United States

Laurie A. Speers
Vice-President and Corporate Secretary

SHAREHOLDER INFORMATION

Registered Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

Stock Exchange Listings

Symbol: GWO

The following shares are listed on the Toronto Stock Exchange: Common Shares **(GWO)**, Non-Cumulative First Preferred Shares Series D **(GWO.PR.E)**, Series F **(GWO.PR.F)**, Series G **(GWO.PR.G)**, Series H **(GWO.PR.H)**, Series I **(GWO.PR.I)**, Series J **(GWO.PR.J)** and Series L **(GWO.PR.L)**.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Lifeco Inc. is **Computershare Investor Services Inc.**

In Canada, the Common Shares and Non-Cumulative First Preferred Shares, Series D and F are transferable at the following locations:

Canadian Offices	Computershare Investor Services Inc. 9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1 6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8 1500 University Street, Suite 700, Montreal, Quebec, Canada H3A 3S8 2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9 Phone: 1-888-284-9137 (toll free in North America), 514-982-9557 (direct dial)

The Non-Cumulative First Preferred Shares, Series G, H, I, J and L are only transferable at the Toronto Office of Computershare Investor Services Inc.

Internationally, the Common Shares and Non-Cumulative First Preferred Shares, Series F are also transferable at the following locations:

United States Office	Computershare Trust Company, N.A. 350 Indiana Street, Suite 800 Golden, Colorado, United States 80401 Phone: 1-888-284-9137 (toll free in North America)
United Kingdom Office	Computershare Investor Services PLC P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, United Kingdom Phone: 0870 702 0003
Ireland Office	Computershare Investor Services (Ireland) Limited P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland Phone: 353 1 216 3100

Shareholders wishing to contact the transfer agent by email can do so by emailing: GWO@computershare.com

Dividends

Common Shares and First Preferred Shares Series D, F, G, H, I, J and L – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Investor Information

For financial information about Great-West Lifeco Inc. please contact:

Canada Operations Senior Vice-President and Chief Financial Officer, Canada 204-946-8396

United States Operations Senior Vice-President and Chief Financial Officer, United States 303-737-5200

Europe Operations Vice-President, Finance, Europe 416-552-6455

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit: **www.greatwestlifeco.com**.

Common Share Investment Data*

	Market price per common share ($)			Dividend	Dividend	Dividend
	High	Low	Close	paid ($)	payout ratio	yield**
2009	**27.01**	**11.35**	**26.88**	**1.23**	**71.4%**	**6.4%**
2008	35.29	19.49	20.70	1.20	76.9%	4.4%
2007	37.58	32.50	35.57	1.06	46.0%	3.0%
2006	34.39	27.16	33.80	0.9275	44.1%	3.0%
2005	30.70	26.01	30.70	0.81	41.4%	2.9%
2004	26.99	21.87	26.70	0.685	38.2%	2.8%
2003	23.08	17.44	22.75	0.5625	38.1%	2.8%
2002	19.90	16.25	18.63	0.4725	37.4%	2.6%

* In October 2004 the Corporation's common shares were subdivided on a two for one basis. The data presented has been adjusted to reflect this share subdivision.

** Dividends as per cent of average high and low market price.

GREAT-WEST
LIFECO INC.

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™

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